

Introductory Section

City of Rockville, Maryland

Comprehensive Annual Financial Report



Prepared by:
Department of Finance

Gavin Cohen
Director of Finance

Jennifer Frank
Accounting Manager

Fiscal Year 2006
July 1, 2005 - June 30, 2006

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rockville
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Table of Contents

City of Rockville, Maryland Comprehensive Annual Financial Report June 30, 2006

PART I - INTRODUCTORY SECTION

Title Page	1
Certificate of Achievement for Excellence in Financial Reporting	2
Table of Contents	3-4
List of Elected and Appointed Officials	5
Letter of Transmittal	6-9
Organizational Chart	10

PART II - FINANCIAL SECTION

Independent Auditor's Report	11-12
Management's Discussion and Analysis	13-20
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds	23
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities	24
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Net Assets - Proprietary Funds	27
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	28
Statement of Cash Flows - Proprietary Funds	29-30
Statement of Fiduciary Net Assets - Pension Trust Funds	31
Statement of Changes in Fiduciary Net Assets - Pension Trust Funds	32
Notes to the Basic Financial Statements	33-53
Required Supplementary Information:	
Public Employee Retirement System - Schedule of Funding Progress (Unaudited - See Accompanying Independent Auditor's Report)	55
Public Employee Retirement System- Schedule of Employer Contributions (Unaudited - See Accompanying Independent Auditor's Report)	56
Budgetary Comparison Schedule - General Fund	57
Budgetary Comparison Schedule - Debt Service Fund	58
Note to the Required Supplementary Information	59
Other Supplementary Information - Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	61
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	62
Budgetary Comparison Schedule - Nonmajor Governmental Fund	63
Other Supplementary Information - Proprietary Funds:	
Budgetary Comparison Schedule - Proprietary Funds	65-66

Table of Contents

City of Rockville, Maryland Comprehensive Annual Financial Report June 30, 2006

PART III - STATISTICAL SECTION

Net Assets by Category - Government Wide (Governmental and Business-type Activities) - Last Four Fiscal Years	67
Changes in Net Assets by Category - Government Wide (Governmental and - Business- type Activities) - Last Four Fiscal Years	68-69
Fund Balances, Governmental Funds, Last Four Fiscal Years	70
Changes in Fund Balances- Governmental Funds - Last Four Fiscal Years	71
Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	72
Direct and Overlapping Property Tax Rates, Last Ten Fiscal Years	73
Principal Property Tax Payers, Current and Nine Years Ago	74
Property Tax Levies and Collections, Last Ten Fiscal Years	75
Ratios of Outstanding Debt by Type, Last Ten Fiscal Years	76
Ratios of General Bonded Debt Outstanding, Last Ten Fiscal Years	77
Direct and Overlapping Governmental Activities Debt	78
Legal Debt Margin Information, Last Ten Fiscal Years	79
Demographic and Economic Statistics, Last Ten Fiscal Years	80
Principal Employers, Current Year and Nine Years Ago	81
Full-Time Equivalent City Government Employees by Function/Program, Last Ten Fiscal Years	82
Capital Asset Statistics by Function/Program, Last Ten Fiscal Years	83
Operating Indicators by Function/Program, Last Ten Fiscal Years	84

CITY OF ROCKVILLE, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2006

MAYOR
Larry Giammo

COUNCIL MEMBERS
Robert E. Dorsey Susan R. Hoffmann
Phyllis Marcuccio Anne M. Robbins

CITY MANAGER
Scott Ullery

DIRECTOR OF FINANCE
Gavin Cohen

CITY CLERK
Claire F. Funkhouser



December 28, 2006

Honorable Mayor and Members of the City Council
City of Rockville, Maryland

State law requires that all general purpose local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report for the City of Rockville, Maryland, for the year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Rockville. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Rockville has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Rockville's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Rockville's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Rockville's financial statements have been audited by Reznick Group, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Rockville for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rockville's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Rockville was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Rockville's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Rockville's MD&A can be found immediately following the independent auditors report.

PROFILE OF THE GOVERNMENT

The City of Rockville is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Mayor and Council. The Mayor and Council is responsible, among other things, for



passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the Mayor and Council, for overseeing day-to-day operations of the government, and for appointing the heads of the various departments.

The City of Rockville provides a full range of services, including water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development and community services. Schools, libraries, social services and fire protection are provided by Montgomery County, Maryland.

The City of Rockville, Maryland, was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has an estimated population of 59,887 and a land area of 13.50 square miles. According to the 2000 census, Rockville is the third largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members, who are elected for two year terms.

As a management policy, unreserved undesignated General Fund fund balance will be maintained at a level not less than 15 percent of annual general fund revenue. The purpose of the unreserved balance is to alleviate significant unanticipated budget shortfalls and to ensure orderly provisions of services to residents. To the extent the unreserved general fund balance exceeds the target, the City will draw upon the fund balance to provide pay-as-you-go financing for capital projects and or for other one time capital items.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 57 as part of the required supplementary information section for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, these comparisons are presented on pages 58 and 63.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Rockville operates.

LOCAL ECONOMY

The City of Rockville currently enjoys a favorable economic environment and local indicators point to continued stability. The region has a firm employment base that adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the government's boundaries or in close proximity include computer hardware and software manufacturers, bio-tech and several financial institutions.

The city has an employed labor force of approximately 80,059. Rockville has experienced substantial residential and commercial growth in recent years and this growth is expected to continue with the redevelopment of the Town Center.

The following table lists the labor force, employed persons and average unemployment rates for Montgomery County as compared to the unemployment rates for the State of Maryland for the years 2002 through 2006. Information presented in the table below has not been seasonally adjusted.



Unemployment Statistics

Year	Montgomery County				State of Maryland
	Labor Force	Employment	Unemployment	Unemployment Rate	Unemployment Rate
2006	524,196	507,513	16,683	3.20%	4.10%
2005	511,864	494,888	16,976	3.30%	4.20%
2004	509,687	494,030	15,657	3.10%	4.20%
2003	505,536	492,219	13,317	2.60%	4.40%
2002	503,584	489,673	13,911	2.80%	4.00%

Source: Maryland Division of Employment Security.

Income levels in the City of Rockville are among some of the highest in the nation. Retail sales have grown steadily in the City. Many of the major retail centers in the City are located in the Town Center and along Rockville Pike (Maryland Route 355). A significant percentage of the City's retail trade results from expenditures by individuals living outside the City.

The retail sales and buying income lists median household effective buying income (EBI) and per capita retail sales for the City of Rockville and Montgomery County for the years 2000 through 2004, as reported in Sales and Marketing Management, "Survey of Buying Power."

Retail Sales / Buying Income

Year	Median Household EBI		Per Capita Retail Sales	
	City of Rockville	Montgomery County	City of Rockville	Montgomery County
2004	57,206	61,223	27,562	15,920
2003	56,501	59,508	26,901	14,640
2002	56,213	58,620	27,400	13,937
2001	57,943	61,797	24,424	13,186
2000	65,494	65,881	20,717	13,547

Source: Sales and Marketing Management, "Survey of Buying Power."

LONG TERM PLANNING

One of the major projects for the City is the redevelopment of Town Center. A project of new mixed use retail and residential space. The total City cost of the project \$65,000,000 is being financed by general obligation bonds, developer contributions, federal and state funding. This will create jobs and enhance the City's tax base. The project will be complete in May 2007 and upon its completion will include 640 luxury condominiums and approximately 170,000 square feet of retail space owned by Federal Realty Investment Trust, the retail developer.

The financial strength of the City in the last five years has allowed the City to issue \$56,735,000 in general obligation bonds this fiscal year. The main purpose of the bonds is to construct the parking garages in Town Center and for the general development of Town Center. Revenues collected from the parking garages will assist in repayment of the general obligation bonds.



There will be significant increases in real property tax in FY 2007. This is due to strong growth in real property assessments. The base should continue to grow for many years. The sound financial health of the City is also due to a good economy and low unemployment which has also attributed to higher income tax revenue. Property tax and income tax revenue have increased an average of 8% in the last five years.

MAJOR INITIATIVES

- Federal Transportation Enhancement Funds of \$647,489 were dedicated to support the I-270 Pedestrian/Bike Bridge Project.
- The Arts Division received a \$23,000 grant from the Maryland State Arts council for arts programming.
- Montgomery County Department of Health and Human Services awarded \$171,238 for the Linkages to Learning Program at Maryvale Elementary School.
- The Rockville Homeowners' Property Tax Credit program was approved by Mayor and Council to provide Rockville citizens in households with gross income up to \$35,000 to qualify for tax relief on the first \$150,000 of the home's assessed value. This program supplements the State of Maryland Homeowners' Property Tax Credit Program.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the 16th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2006. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories; including: a policy document, a financial plan, an operations guide and a communications device.

This report could not have been prepared without the dedicated cooperation of the entire staff of the Finance Department. Special recognition is extended to Stacey Tate, Fran Jablonski, Sharon Collins, Whitney Coleman, Tim Peifer, Wanda Roelkey, Nancy Zombolas and Carlton Barclay for the sense of commitment they displayed throughout the preparation process. We also would like to express our appreciation to the Mayor and Council for their interest and support in planning and carrying out the City's financial operations in a responsible, progressive fashion.

Respectfully submitted,

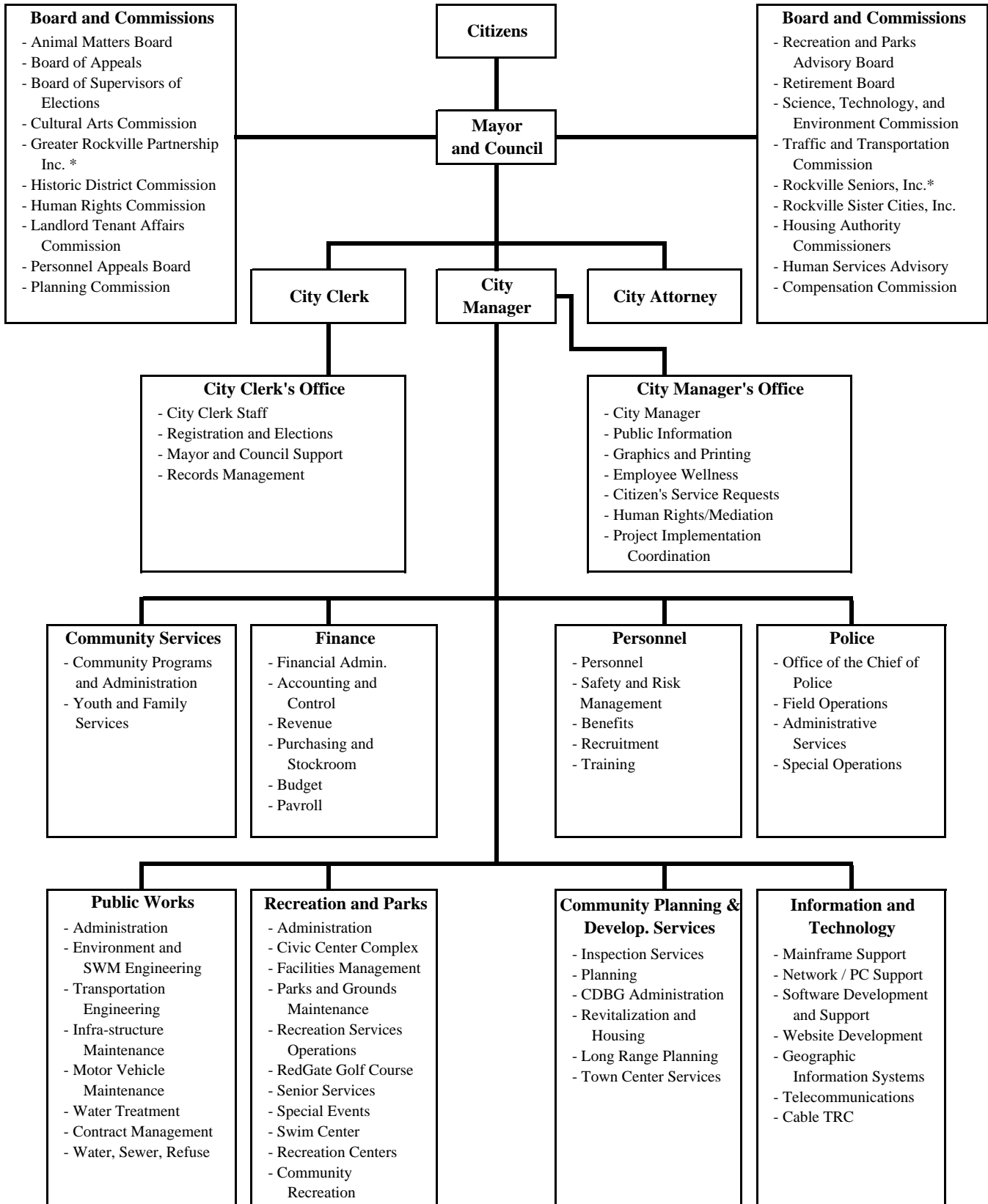
Scott Ullery
City Manager

Gavin Cohen
Director of Finance

Jennifer Frank
Accounting Manager

City of Rockville Organizational Chart

June 2006



* Affiliated Organization

Financial Section

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the City Council and City Manager
City of Rockville, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis and Public Employee Retirement System information on pages 13 through 20 and 55 and 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockville, Maryland's basic financial statements. The Budgetary Comparison Schedule - General Fund on page 57 and the Budgetary Comparison Schedule - Debt Service Fund on page 58 are not a required part of the basic financial statements but is supplementary information required by the GASB. The financial information listed as other supplementary information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Reznick Group, P.C.

Baltimore, Maryland
October 26, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Rockville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6 – 9 of this report and the financial statements beginning on page 21.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rockville exceeded its liabilities at the close of the most recent fiscal year by \$129,519,779 (net assets). Of this amount, \$56,438,070 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,023,574. Approximately 16% of this total amount, \$3,601,192, is reserved for debt service.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$16,082,011 or 37.9% of total general fund expenditures.
- The City's total bonded debt increased by \$39,766,822 (60.5%) during the current fiscal year.
- Interest on investment earnings earned by the City's general investment portfolio totaled \$2,047,417 for an average rate of return of 2.82%. The average daily investment portfolio was \$72,455,102.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Rockville basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on the City of Rockville's assets and liabilities, with the difference between the two reported as net assets. Over time, fluctuations in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Rockville that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, economic development, community development, community services, and parks and recreation. The business-type activities of the City of Rockville include water, sewer, refuse, stormwater management, parking and golf course operations.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rockville, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Rockville maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 61 – 62 of this report.

The City adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements can be found on pages 57, 58 and 63, respectively.

The governmental fund financial statements can be found on pages 23-26 of this report.

Proprietary funds. The City maintains six different enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Rockville uses enterprise funds to account for its water, sewer, refuse, storm water management, parking, and golf course operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water, sewer, refuse parking, storm water management and the golf course, which are considered the major funds of the City. The refuse and golf course funds do not meet the requirements of a major fund, but management has elected to report these funds as major.

The enterprise fund financial statements can be found on pages 27-30 of this report.

Fiduciary funds. The pension trust fund is used to account for resources held for the benefit of parties outside the government. The pension trust fund is not reflected in the government-wide financial statement because the resources of this fund are not available to support the City's own programs. The accounting used for the trust fund is much like that used for proprietary funds.

The pension trust funds financial statement can be found on pages 31 and 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparison schedules for major governmental funds. Required supplementary information can be found beginning on page 57 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 61 through 63 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Rockville's assets exceeded liabilities by \$129,519,779 at the close of the most recent fiscal year.

The largest portion of the City's net assets (56.4 percent) is reflected in its investment in capital assets (e.g., CIP and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Rockville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rockville's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	\$ 33,304,268	\$ 33,335,381	\$ 17,605,272	\$ 43,754,792	\$ 50,909,540	\$ 77,090,173
Capital Assets	76,802,130	93,004,039	70,354,057	85,132,490	147,156,187	178,136,529
Total Assets	\$ 110,106,398	\$ 126,339,420	\$ 87,959,329	\$ 128,887,282	\$ 198,065,727	\$ 255,226,702
Long-term Liabilities	46,365,870	44,799,660	22,827,417	60,839,391	69,193,287	105,639,051
Other Liabilities	6,462,308	9,373,993	7,240,193	10,693,879	13,702,501	20,067,872
Total Liabilities	\$ 52,828,178	\$ 54,173,653	\$ 30,067,610	\$ 71,533,270	\$ 82,895,788	\$ 125,706,923
Net Assets:						
Invested in Capital Assets, Net of Related Debt	33,333,209	51,236,426	48,085,580	\$ 21,845,283	81,418,789	73,081,709
Unrestricted	23,945,011	20,929,341	9,806,139	35,508,729	33,751,150	56,438,070
Total Net Assets	\$ 57,278,220	\$ 72,165,767	\$ 57,891,719	\$ 57,354,012	\$ 115,169,939	\$ 129,519,779

At the end of the current fiscal year, the balance of unrestricted net assets (\$56,438,070) may be used to meet the government's ongoing obligations to citizens and creditors. The City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities for the most recent fiscal year.

The governmental activities investment in capital assets, net of related debt increased by \$17,903,217. Most of this increase is related to construction in progress cost for the Town Center redevelopment project, new debt issue, and the addition of infrastructure.

City of Rockville's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for services	\$ 7,493,172	\$ 8,879,482	\$ 16,607,067	\$ 17,361,854	\$ 24,100,239	\$ 26,241,336
Operating grants & contrib.	1,522,497	1,212,180	-	-	1,522,497	1,212,180
Capital grants & contrib.	5,587,548	4,541,337	1,000,000	-	6,587,548	4,541,337
General revenues:						
Property taxes	25,980,805	28,253,720	-	-	25,980,805	28,253,720
Other taxes	12,953,238	15,148,621	-	-	12,953,238	15,148,621
Other	800,599	2,022,811	305,584	1,463,990	1,106,183	3,486,801
Gain on sale of capital assets	11,920,985	-	101,438	99,465	12,022,423	99,465
Total Revenues:	\$ 66,258,844	\$ 60,058,151	\$ 18,014,089	\$ 18,925,309	\$ 84,272,933	\$ 78,983,460
Expenses:						
General government	\$ 9,181,896	\$ 10,182,325	\$ -	\$ -	\$ 9,181,896	\$ 10,182,325
CDBG	357,432	294,481	-	-	357,432	294,481
Community development	1,607,760	3,565,924	-	-	1,607,760	3,565,924
Community services	1,200,217	1,036,754	-	-	1,200,217	1,036,754
Public safety	8,130,281	6,989,835	-	-	8,130,281	6,989,835
Public works	5,743,222	5,596,654	-	-	5,743,222	5,596,654
Recreation and Parks	14,174,780	14,335,067	-	-	14,174,780	14,335,067
Nondepartmental	3,102,804	2,884,558	-	-	3,102,804	2,884,558
Interest on long term debt	1,546,093	1,708,598	-	-	1,546,093	1,708,598
Water	-	-	4,333,962	5,412,906	4,333,962	5,412,906
Sewer	-	-	4,214,334	4,844,716	4,214,334	4,844,716
Refuse	-	-	4,222,021	4,315,562	4,222,021	4,315,562
Parking	-	-	312,212	494,594	312,212	494,594
Stormwater management	-	-	1,622,590	1,952,276	1,622,590	1,952,276
Golf Course	-	-	1,074,327	1,019,370	1,074,327	1,019,370
Total Expenses:	\$ 45,044,485	\$ 46,594,196	\$ 15,779,446	\$ 18,039,424	\$ 60,823,931	\$ 64,633,620
Increase in net assets before transfers	21,214,359	13,463,955	2,234,643	885,885	23,449,002	14,349,840
Transfers	1,382,127	1,423,592	(1,382,127)	(1,423,592)	-	-
Increase in net assets	22,596,486	14,887,547	852,516	(537,707)	23,449,002	14,349,840
Net assets – beginning	34,681,734	57,278,220	57,039,203	57,891,719	91,720,937	115,169,939
Net assets – ending	\$ 57,278,220	\$ 72,165,767	\$ 57,891,719	\$ 57,354,012	\$ 115,169,939	\$ 129,519,779

Governmental activities. Governmental activities net assets were \$72,165,767 at the end of the fiscal year, an increase of \$14,887,547 over beginning net assets. Property taxes increased by \$2,272,915 (8.7%) during the year. This fluctuation is the product of increased assessed values and new construction. General Government expenses increased by \$1,000,429, which represents an increase of 10.9% compared to the previous year. Almost two thirds of the fluctuation was due to increased expenses for red light cameras and increased costs for Information and Technology.

Business-type activities. Business-type activities total net assets decreased by (\$537,707) accounting for 0.9% of the decrease in the business-type's net assets. For the most part, increases in capital assets related to construction of Town Center parking garages. Water and sewer revenues were stable but water/sewer connection revenue dropped due to less development in the area.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,023,574 an increase of \$50,264 in comparison with the prior year. The unreserved fund balance had a balance of \$16,511,163. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$1,094,193); 2) to pay debt service (\$3,601,192); or 3) for a variety of other restricted purposes (\$817,026).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$16,082,011, while total fund balance reached \$16,950,559. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 37.9% of total general fund expenditures, while total fund balance represents 39.9% of that same amount.

The fund balance of the City of Rockville's general fund increased by \$2,092,726 during the current fiscal year. This increase was due to higher than anticipated income revenue and lower than anticipated spending in several categories. The increase was mainly from property tax revenue and income tax revenue. The fund balance of Capital Projects increased by \$7,983,726 during the current fiscal year. This increase is due to receiving \$14,950,000 from issuance of new debt for the construction of Town Center and various other capital projects.

The debt service fund has a total fund balance of \$3,601,192 all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was (\$12,251,017). This decrease relates to the payoff of \$12,350,000 of the City's Bond Anticipation Notes in FY 2006.

Proprietary funds. The City of Rockville's, proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewer, Refuse, Parking, Stormwater Management, and RedGate Golf Course Funds at the end of the year amounted to \$2,316,395, \$5,583,674, \$551,261, \$18,174,235, \$9,616,797 and (\$733,633) respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original budget and the final amended budget was an increase of 15% during the year (\$6,636,661 increase in appropriations) and can be briefly summarized as follows:

- \$4,500,000 increase in pay-go contributions for construction projects
- \$1,363,400 Transfer to Debt Service
- \$773,261 increase to various expenditure accounts

This increase of \$6,636,661 was funded from available fund balance. Funds drawn from the fund balance are to be used only for expenditures or transfers of a non-recurring nature. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$178,136,529 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges and water and sewer improvements. The total increase in the City's investment in capital assets for the current fiscal year was 21.1% (a 21.1% increase for governmental activities and a 21.0% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction began on the I-270 Pedestrian Bridge; construction costs as of the close of the fiscal year were \$386,277.
- A variety of street construction projects and concrete and asphalt projects for existing streets; construction costs as of the end of the current fiscal year were \$1,562,052.
- Construction on the City's redevelopment of its Town Center; construction and acquisition costs as of the end of the current fiscal year were \$5,185,381.
- Construction on the parking garages for the Town Center, construction costs at the end of the current fiscal year were \$11,482,294.

City of Rockville's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 7,843,832	\$ 7,843,832	\$ 2,058,940	\$ 2,058,940	\$ 9,902,772	\$ 9,902,772
Buildings	8,311,907	9,490,383	1,348,543	1,218,246	9,660,450	10,708,629
Improv. other than buildings	3,337,170	3,182,526	25,825,886	28,127,961	29,163,056	31,310,487
Machinery and Equipment	3,118,132	3,482,706	867,038	1,042,249	3,985,170	4,524,955
Infrastructure	814,568	1,925,256	-	-	814,568	1,925,256
Purchased Capacity	-	-	14,140,335	13,834,745	14,140,335	13,834,745
Construction in Progress	53,376,521	67,079,336	26,113,315	38,850,349	79,489,836	105,929,685
Total	\$ 76,802,130	\$ 93,004,039	\$ 70,354,057	\$ 85,132,490	\$ 147,156,187	\$ 178,136,529

Additional information on the City's capital assets can be found in note (2) C on pages 40-41 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$109,104,258, which is backed by the full faith and credit of the government.

City of Rockville's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
General Obligation Bonds	\$ 43,468,921	\$ 41,911,464	\$ 22,268,477	\$ 63,592,756	\$ 65,737,398	\$ 105,504,220
Accrued Obligations for Compensated Balances	2,896,949	3,042,220	558,937	557,818	3,455,886	3,600,038
Total Long-Term Liabilities	\$ 46,365,870	\$ 44,953,684	\$ 22,827,414	\$ 64,150,574	\$ 69,193,284	\$ 109,104,258

The City's total bonded debt increased by \$39,766,822 (60.5%) compared to last fiscal year. The key factor in this increase was new general obligation debt issued this year. Also, compensated absences increased by \$144,152 during the fiscal year.

The City of Rockville maintains a "AA+" rating from Standard & Poor's and a "Aa1" rating from Moody's Investor Service for its general obligation debt.

The City's performance against key quantitative measures specified within the fiscal policies is as follows for debt issuance:

Key Financial Ratios Compared to Policy Targets Historical Performance

	Policy Targets	As of June 30, 2006	As of June 30, 2005	As of June 30, 2004	As of June 30, 2003
Adjusted Net Bonded Debt as a Percentage of Assessed Value	2.0% / 0.8%	0.6% / 0.4% ³	0.5% / 0.4% ²	0.6% / 0.4% ²	0.5% / 0.3% ¹
Adjusted Net Bonded Debt per Capita	\$700	\$705 / 492 ³	\$671 / 463 ²	\$737 / 523 ²	\$607 / 326 ¹
Adjusted Net Bonded Debt per Capita as a Percentage of Per Capita Income	2.5%	2.4% / 2.0% ³	2.3% / 1.9% ¹	2.7% / 1.9% ¹	2.0% / 1.1% ¹
Net Bonded Debt Service Costs as a Percentage of Expenditures for the General, Special Revenue, and Debt Service Funds	15.0%	10.4%	9.2%	7.5%	6.2%
Unreserved undesignated General Fund balance as a percentage of General Fund revenue	15.0%	28.7%	27.9%	20.6%	21.2%

The policy targets were all met.

1. On September 8, 2003, the City paid off \$14,715,000 of 1993 series general obligation bonds, which were refunded on June 1, 2003, see footnote (2) E for details. Based upon the above information, the restated ratios as of September 8 for adjusted net bonded debt to assessed value is 0.3%, the adjusted net bonded debt per capita would be \$326 and the adjusted net bonded debt per capita as a percentage of per capita income would be 1.1%, and the ratio for adjusted net bonded debt to assessed value is 0.3%.

2. The City issued \$12,350,000 of short-term Bond Anticipation Notes (BAN's) in June 2004 for costs associated with the redevelopment of Town Center. The BAN's were repaid with the developer contributions during FY 2006. Based upon the above information the restated dollar amount for adjusted net bonded debt per capita would be \$463 in FY 2005 and \$523 in FY 2004, adjusted net bonded debt per capita as a percentage of per capita income would be 1.9%, and the ratio for adjusted net bonded debt to assessed value is 0.4%.

3. On September 23, 2005, the City issued \$56,735,000 in general obligation bonds for costs associated with the development of Town Center. Based upon the above information the restated dollar amount for adjusted net bonded debt per capita would be \$492, adjusted net bonded debt per capita as a percentage of per capita income would be 2.0%, and the ratio for adjusted net bonded debt to assessed value is 0.4%

Additional information on the City of Rockville's long-term debt can be found in note (2) E on pages 42-46 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the City of Rockville and the State of Maryland compares favorably to the national average rate.
- The occupancy rate of the government's business district has remained consistent for the past three years.
- Inflation in the region has been low, as it has been across the country.

All of these factors were considered in preparing the City of Rockville's budget for the 2006 fiscal year.

An increase in the City's assessed value as the result of both new development and the reassessment of the existing base will avoid the need to raise taxes during the 2007 fiscal year.

The water and sewer rates decreased for the 2007 budget year. The water and the sewer rates decreased by .09 percent for all customers, while refuse rate increased by 5.2 percent. The water and sewer rates affected both residential and industrial consumers by approximately the same percentage, the refuse rate increase applied only to residential customers. The decrease in water and sewer rates were due to adopting a new tiered rate schedule. The rates are adjustable based on the usage. The refuse rate increased due increases in operating costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Rockville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 111 Maryland Avenue, City of Rockville, Rockville, Maryland, 20850.

Basic Financial Statements

City of Rockville, Maryland

Statement of Net Assets June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 26,438,992	\$ 38,216,598	\$ 64,655,590
Property tax receivable, net	469,448	-	469,448
Accounts receivables, net	132,879	4,293,606	4,426,485
Due from other governments	3,090,257	-	3,090,257
Assessments receivable	-	13,738	13,738
Other assets	1,266,875	673,458	1,940,333
Unbilled assessments receivable	1,936,930	103,874	2,040,804
Restricted assets:			
Equity in pooled cash and cash equivalents	-	453,518	453,518
Capital assets (net of accumulated depreciation):			
Land	7,843,832	2,058,940	9,902,772
Buildings	9,490,383	1,218,246	10,708,629
Improvements other than buildings	3,182,526	28,127,961	31,310,487
Equipment	3,482,706	1,042,249	4,524,955
Construction in progress	67,079,336	38,850,349	105,929,685
Infrastructure	1,925,256	-	1,925,256
Purchase Capacity	-	13,834,745	13,834,745
Total Assets	\$ 126,339,420	\$ 128,887,282	\$ 255,226,702
Liabilities			
Current Liabilities:			
Accounts payable	\$ 4,970,018	\$ 2,460,690	\$ 7,430,708
Internal balances	(700,064)	700,064	-
Accrued liabilities	1,653,405	662,177	2,315,582
Unearned revenue	850,995	1,717,176	2,568,171
Retainages payable	1,023,850	1,801,416	2,825,266
Deposits and other liabilities	1,421,765	41,173	1,462,938
Noncurrent Liabilities:			
Due within one year:			
Compensated absences	2,220,821	407,207	2,628,028
Bonds payable and loan payable	4,105,428	2,904,126	7,009,554
Due in more than one year:			
Compensated absences	821,399	150,611	972,010
Bonds payable and loan payable	37,806,036	60,688,630	98,494,666
Total Liabilities	\$ 54,173,653	\$ 71,533,270	\$ 125,706,923
Net Assets			
Invested in capital assets, net of related debt	\$ 51,236,426	\$ 21,845,283	\$ 73,081,709
Unrestricted	20,929,341	35,508,729	56,438,070
Total Net Assets	\$ 72,165,767	\$ 57,354,012	\$ 129,519,779

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Activities June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Functions / Programs							
Primary Government:							
Governmental activities:							
General government	\$ 10,182,325	\$ 679,403	\$ -	\$ 879,803	\$ (8,623,119)	\$ -	\$ (8,623,119)
Community development block grant	294,481	-	294,481	-	-	-	-
Community development	3,565,924	1,543,426	-	2,244,408	221,910	-	221,910
Community services	1,036,754	38,092	265,811	-	(732,851)	-	(732,851)
Public safety	6,989,835	629,162	618,661	-	(5,742,012)	-	(5,742,012)
Public works	5,596,654	540,524	-	262,543	(4,793,587)	-	(4,793,587)
Recreation and parks	14,335,067	5,087,899	33,227	1,154,583	(8,059,358)	-	(8,059,358)
Non-departmental	2,884,558	217,126	-	-	(2,667,432)	-	(2,667,432)
Interest long-term debt	1,708,598	143,850	-	-	(1,564,748)	-	(1,564,748)
Total governmental activities	\$ 46,594,196	\$ 8,879,482	\$ 1,212,180	\$ 4,541,337	\$ (31,961,197)	\$ -	\$ (31,961,197)
Business-type activities:							
Water	5,412,906	3,955,830	-	-	-	(1,457,076)	(1,457,076)
Sewer	4,844,716	5,473,314	-	-	-	628,598	628,598
Refuse	4,315,562	4,884,469	-	-	-	568,907	568,907
Parking	494,594	607,752	-	-	-	113,158	113,158
Stormwater management	1,952,276	1,357,430	-	-	-	(594,846)	(594,846)
Golf course	1,019,370	1,083,059	-	-	-	63,689	63,689
Total business-type activities	\$ 18,039,424	\$ 17,361,854	\$ -	\$ -	\$ -	\$ (677,570)	\$ (677,570)
Total primary government	\$ 64,633,620	\$ 26,241,336	\$ 1,212,180	\$ 4,541,337	\$ (31,961,197)	\$ (677,570)	\$ (32,638,767)
General revenues:							
Property taxes					\$ 28,253,720	\$ -	\$ 28,253,720
Income taxes					9,035,343	-	9,035,343
Gas and motor vehicle taxes					3,097,689	-	3,097,689
County tax duplication payment					2,131,796	-	2,131,796
Admissions and amusement taxes					883,793	-	883,793
Use of money and property					1,577,137	1,463,990	3,041,127
Other revenue					445,674	-	445,674
Gain on sale of capital assets					-	99,465	99,465
Transfers					1,423,592	(1,423,592)	-
Total general revenues and transfers					\$ 46,848,744	\$ 139,863	\$ 46,988,607
Change in net assets					14,887,547	(537,707)	14,349,840
Net assets – beginning					57,278,220	57,891,719	115,169,939
Net assets – ending					\$ 72,165,767	\$ 57,354,012	\$ 129,519,779

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Balance Sheet Governmental Funds June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 17,266,932	\$ 3,905,736	\$ 4,833,250	\$ 433,074	\$ 26,438,992
Property taxes receivable, net	469,448	-	-	-	469,448
Accounts receivable, net	132,879	-	-	-	132,879
Interfund receivable	721,157	-	-	-	721,157
Due from other governments	1,931,792	-	1,070,319	88,146	3,090,257
Other assets	1,146,947	79,756	35,484	4,688	1,266,875
Unbilled assessments receivable	-	1,936,930	-	-	1,936,930
Total assets	<u>\$ 21,669,155</u>	<u>\$ 5,922,422</u>	<u>\$ 5,939,053</u>	<u>\$ 525,908</u>	<u>\$ 34,056,538</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,065,468	\$ -	\$ 3,895,940	\$ 8,610	\$ 4,970,018
Interfund payable	-	-	-	21,093	21,093
Accrued liabilities	1,338,865	-	-	-	1,338,865
Deferred revenue	469,448	1,936,930	-	-	2,406,378
Unearned revenue	850,995	-	-	-	850,995
Retainages payable	30,908	-	992,942	-	1,023,850
Deposits and other liabilities	962,912	384,300	7,500	67,053	1,421,765
Total liabilities	<u>\$ 4,718,596</u>	<u>\$ 2,321,230</u>	<u>\$ 4,896,382</u>	<u>\$ 96,756</u>	<u>\$ 12,032,964</u>
Fund balances					
Reserved for encumbrances	\$ 51,522	\$ -	\$ 1,042,671	\$ -	\$ 1,094,193
Reserved for self insurance deposit	261,394	-	-	-	261,394
Reserved for inventory	305,632	-	-	-	305,632
Reserved for advance	250,000	-	-	-	250,000
Reserved for debt service	-	3,601,192	-	-	3,601,192
Unreserved:					
Designated special activities fund	-	-	-	429,152	429,152
Undesignated	16,082,011	-	-	-	16,082,011
Total fund balance	<u>\$ 16,950,559</u>	<u>\$ 3,601,192</u>	<u>\$ 1,042,671</u>	<u>\$ 429,152</u>	<u>\$ 22,023,574</u>
Total liabilities and fund balance	<u>\$ 21,669,155</u>	<u>\$ 5,922,422</u>	<u>\$ 5,939,053</u>	<u>\$ 525,908</u>	<u>\$ 34,056,538</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental funds	\$	22,023,574
------------------------------------------	----	------------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets	108,374,633	
Accumulated depreciation	<u>(15,370,594)</u>	93,004,039

Deferred revenues are not financial resources in the governmental funds, therefore the liability is eliminated and total net assets are increased		2,406,378
---------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities as of year-end consist of:

Compensated absences	3,042,220	
General obligation bonds payable and issuance costs	41,911,464	
Accrued interest on the general obligation bonds	<u>314,540</u>	<u>(45,268,224)</u>

Total net assets - governmental activities	<u>\$</u>	<u>72,165,767</u>
--------------------------------------------	-----------	-------------------

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenue					
Property Taxes	\$ 28,513,927	\$ -	\$ -	\$ -	\$ 28,513,927
Assessments	-	330,053	-	-	330,053
Revenue from other governments:					
Community development block grant	-	-	-	294,481	294,481
Income taxes	9,035,343	-	-	-	9,035,343
Gas and motor vehicles taxes	3,097,689	-	-	-	3,097,689
County tax duplication payment	2,131,796	-	-	-	2,131,796
Admission and amusement taxes	883,793	-	-	-	883,793
Grants and other governmental revenue	1,435,118	-	5,208,753	-	6,643,871
Licenses and permits	1,778,686	-	-	-	1,778,686
Charges for services	4,586,595	-	-	-	4,586,595
Use of money and property	2,106,781	273,241	94,085	14,398	2,488,505
Fines and forfeitures	799,486	-	-	-	799,486
Other revenue	1,740,729	35,764	408,443	315,138	2,500,074
Total revenue	<u>\$ 56,109,943</u>	<u>\$ 639,058</u>	<u>\$ 5,711,281</u>	<u>\$ 624,017</u>	<u>\$ 63,084,299</u>
Expenditures					
Current operations:					
General government	\$ 9,356,447	-	-	\$ -	\$ 9,356,447
Community development block grant	-	-	-	294,481	294,481
Community development	3,526,755	-	-	-	3,526,755
Community services	965,965	-	-	190,049	1,156,014
Public safety	6,662,819	-	-	-	6,662,819
Public works	5,253,643	-	-	-	5,253,643
Recreation and parks	13,786,689	-	-	-	13,786,689
Nondepartmental	2,884,558	-	-	-	2,884,558
Capital outlay	-	-	16,699,499	-	16,699,499
Debt service	-	18,273,187	-	-	18,273,187
Total expenditures	<u>\$ 42,436,876</u>	<u>\$ 18,273,187</u>	<u>\$ 16,699,499</u>	<u>\$ 484,530</u>	<u>\$ 77,894,092</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 13,673,067</u>	<u>\$ (17,634,129)</u>	<u>\$ (10,988,218)</u>	<u>\$ 139,487</u>	<u>\$ (14,809,793)</u>
Other Financing Sources (Uses)					
Transfers in	-	5,383,112	6,107,286	-	11,490,398
Transfers out	(11,580,341)	-	-	-	(11,580,341)
Proceeds from General Obligation Bonds	-	-	14,950,000	-	14,950,000
Total other financing sources (uses)	<u>\$ (11,580,341)</u>	<u>\$ 5,383,112</u>	<u>\$ 21,057,286</u>	<u>\$ -</u>	<u>\$ 14,860,057</u>
Net change in fund balances	\$ 2,092,726	\$ (12,251,017)	\$ 10,069,068	\$ 139,487	\$ 50,264
Fund balances at beginning of year	14,857,833	15,852,209	(9,026,397)	289,665	21,973,310
Fund balances at end of year	<u>\$ 16,950,559</u>	<u>\$ 3,601,192</u>	<u>\$ 1,042,671</u>	<u>\$ 429,152</u>	<u>\$ 22,023,574</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Total net change in fund balances-total governmental funds	\$ 50,264
------------------------------------------------------------	-----------

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlays of \$17,571,829 exceeded depreciation of \$1,369,920.	16,201,909
---------------------------------------------------------------------------------------------------	------------

The proceeds from debt issuance is funded by the agreements and is reported in the governmental funds as a source of financing. Also, governmental funds report the effect of issuance costs, premium, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

	(14,970,825)
--	--------------

In the statement of activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by costs of the capital assets disposed of \$496,422 less any accumulated depreciation of \$496,422.

	-
--	---

Repayment of bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

	16,528,272
--	------------

Because the deferred revenue will not be collected for several months after the City's fiscal year ends, it is not considered "available" revenue in the governmental funds. Deferred revenue increased by this amount this year.

	(2,773,334)
--	-------------

In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned of \$152,395 exceeded amounts used of \$7,124.

	(145,271)
--	-----------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest on the financing agreements.

	(3,468)
--	---------

Change in net assets of governmental activities	
-------------------------------------------------	--

	<u><u>\$ 14,887,547</u></u>
--	-----------------------------

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Net Assets Proprietary Funds June 30, 2006

	Business-Type Activities - Enterprise Funds						Total
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	Business-type Activities
Assets							
Current Assets							
Equity in pooled cash and cash equivalents	\$ 2,420,860	\$ 5,222,197	\$ -	\$ 21,155,944	\$ 9,417,596	\$ -	\$ 38,216,597
Accounts receivable, net	902,460	1,036,002	1,094,130	865,903	393,170	1,941	4,293,606
Assessments receivable	6,596	7,142	-	-	-	-	13,738
Purchased capacity, current position	-	305,589	-	-	-	-	305,589
Other receivables	54,060	69,061	7,197	424,938	118,202	-	673,458
Total current assets	<u>\$ 3,383,976</u>	<u>\$ 6,639,991</u>	<u>\$ 1,101,327</u>	<u>\$ 22,446,785</u>	<u>\$ 9,928,968</u>	<u>\$ 1,941</u>	<u>\$ 43,502,988</u>
Restricted Assets							
Equity in pooled cash and cash equivalents	\$ 169,400	\$ 209,118	\$ -	\$ -	\$ 75,000	\$ -	\$ 453,518
Total restricted assets	<u>\$ 169,400</u>	<u>\$ 209,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 453,518</u>
Noncurrent Assets							
Unbilled assessments receivable	51,164	52,710	-	-	-	-	103,874
Total noncurrent assets	<u>\$ 51,164</u>	<u>\$ 52,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,874</u>
Capital Assets:							
Utility plant and equip	34,727,393	20,378,051	3,689,336	36,310	5,067,516	4,014,092	67,912,698
Construction in progress	4,000,323	12,795,511	-	20,986,023	949,446	5,050	38,736,353
Less-accumulated depreciation	(17,308,141)	(12,355,907)	(2,703,138)	(21,190)	(1,607,175)	(1,355,755)	(35,351,306)
Net capital assets	<u>\$ 21,419,575</u>	<u>\$ 20,817,655</u>	<u>\$ 986,198</u>	<u>\$ 21,001,143</u>	<u>\$ 4,409,787</u>	<u>\$ 2,663,387</u>	<u>\$ 71,297,745</u>
Purchased capacity, long-term, net	-	13,529,157	-	-	-	-	13,529,157
Total assets	<u>\$ 25,024,115</u>	<u>\$ 41,248,631</u>	<u>\$ 2,087,525</u>	<u>\$ 43,447,928</u>	<u>\$ 14,413,755</u>	<u>\$ 2,665,328</u>	<u>\$ 128,887,282</u>
Liabilities							
Current Liabilities							
Bonds payable within 1yr	\$ 989,710	\$ 1,030,471	\$ 184,337	\$ 620,000	\$ 73,663	\$ 5,945	\$ 2,904,126
Accounts payable	596,756	463,792	105,249	1,029,060	254,834	10,999	2,460,690
Interfund payable	-	-	150,989	-	-	549,075	700,064
Accrued liabilities	188,606	148,659	109,493	171,594	9,510	34,315	662,177
Compensated absences	135,861	45,491	134,565	3,900	16,700	70,690	407,207
Unearned revenue	-	-	-	1,677,127	-	40,049	1,717,176
Retainages payable	276,409	31,291	-	1,389,426	99,990	4,300	1,801,416
Deposits / other liabilities	40,264	909	-	-	-	-	41,173
Total current liabilities	<u>\$ 2,227,606</u>	<u>\$ 1,720,613</u>	<u>\$ 684,633</u>	<u>\$ 4,891,107</u>	<u>\$ 454,697</u>	<u>\$ 715,373</u>	<u>\$ 10,694,029</u>
Noncurrent Liabilities							
Compensated absences	50,249	16,825	49,771	1,443	6,177	26,146	150,611
Bonds payable	10,092,371	13,836,083	383,975	34,813,276	1,186,409	376,516	60,688,630
Total noncurrent liabilities	<u>\$ 10,142,620</u>	<u>\$ 13,852,908</u>	<u>\$ 433,746</u>	<u>\$ 34,814,719</u>	<u>\$ 1,192,586</u>	<u>\$ 402,662</u>	<u>\$ 60,839,241</u>
Total Liabilities	<u>\$ 12,370,226</u>	<u>\$ 15,573,521</u>	<u>\$ 1,118,379</u>	<u>\$ 39,705,826</u>	<u>\$ 1,647,283</u>	<u>\$ 1,118,035</u>	<u>\$ 71,533,270</u>
Net Assets							
Invested in capital assets, net of related debt	\$ 10,337,494	\$ 20,091,436	\$ 417,885	\$ (14,432,133)	\$ 3,149,675	\$ 2,280,926	\$ 21,845,283
Unrestricted	2,316,395	5,583,674	551,261	18,174,235	9,616,797	(733,633)	35,508,729
Total net assets	<u>\$ 12,653,889</u>	<u>\$ 25,675,110</u>	<u>\$ 969,146</u>	<u>\$ 3,742,102</u>	<u>\$ 12,766,472</u>	<u>\$ 1,547,293</u>	<u>\$ 57,354,012</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds						Total
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	Business-type Activities
Operating Revenue							
Charges for Services	\$ 3,357,659	\$ 5,335,674	\$ 4,826,026	\$ 576,252	\$ 1,357,430	\$ 1,083,059	\$ 16,536,100
Other Revenue	598,171	137,640	-	-	-	-	735,811
Total operating revenue	<u>\$ 3,955,830</u>	<u>\$ 5,473,314</u>	<u>\$ 4,826,026</u>	<u>\$ 576,252</u>	<u>\$ 1,357,430</u>	<u>\$ 1,083,059</u>	<u>\$ 17,271,911</u>
Operating Expenses							
Treatment and purification	1,723,544	-	-	-	-	-	1,723,544
Distribution	858,639	-	-	-	-	-	858,639
Collection and disposal	-	2,113,829	3,437,186	-	-	-	5,551,015
Customer billing, collection, operating expenses	1,607,766	1,752,115	614,285	68,782	1,963,069	1,111,407	7,117,424
Repairs and maintenance	81,999	91,041	409,410	-	2,349	-	584,799
Total operating expenses	<u>\$ 4,271,948</u>	<u>\$ 3,956,985</u>	<u>\$ 4,460,881</u>	<u>\$ 68,782</u>	<u>\$ 1,965,418</u>	<u>\$ 1,111,407</u>	<u>\$ 15,835,421</u>
Operating income (loss) before depreciation / amortization	(316,118)	1,516,329	365,145	507,470	(607,988)	(28,348)	1,436,490
Less - depreciation and amortization	(1,011,853)	(868,152)	(247,865)	(11,312)	(128,018)	(71,237)	(2,338,437)
Operating income (loss)	<u>\$ (1,327,971)</u>	<u>\$ 648,177</u>	<u>\$ 117,280</u>	<u>\$ 496,158</u>	<u>\$ (736,006)</u>	<u>\$ (99,585)</u>	<u>\$ (901,947)</u>
Nonoperating Income (Expenses)							
Interest income	138,615	175,872	18,101	733,665	397,737	-	1,463,990
Interest expense	(356,521)	(551,837)	(23,545)	(347,149)	-	(10,106)	(1,289,158)
Sale of capital asset	-	-	-	99,465	-	-	99,465
Total nonoperating income	<u>\$ (217,906)</u>	<u>\$ (375,965)</u>	<u>\$ (5,444)</u>	<u>\$ 485,981</u>	<u>\$ 397,737</u>	<u>\$ (10,106)</u>	<u>\$ 274,297</u>
Income (loss) before transfers	<u>(1,545,877)</u>	<u>272,212</u>	<u>111,836</u>	<u>982,139</u>	<u>(338,269)</u>	<u>(109,691)</u>	<u>(627,650)</u>
Transfers In							
Transfer in from General Fund	-	-	58,443	31,500	-	-	89,943
Increase (decrease) net assets	(1,545,877)	272,212	170,279	1,013,639	(338,269)	(109,691)	(537,707)
Net assets beginning of year	<u>\$ 14,199,766</u>	<u>\$ 25,402,898</u>	<u>\$ 798,867</u>	<u>\$ 2,728,463</u>	<u>\$ 13,104,741</u>	<u>\$ 1,656,984</u>	<u>\$ 57,891,719</u>
Net assets end of year	<u><u>\$ 12,653,889</u></u>	<u><u>\$ 25,675,110</u></u>	<u><u>\$ 969,146</u></u>	<u><u>\$ 3,742,102</u></u>	<u><u>\$ 12,766,472</u></u>	<u><u>\$ 1,547,293</u></u>	<u><u>\$ 57,354,012</u></u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds						Total Business-type Activities
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	
Cash Flows from operating activities:							
Cash received from customers	\$ 3,890,004	\$ 5,473,314	\$ 4,826,026	\$ 530,343	\$ 1,357,429	\$ 1,083,059	\$ 17,160,175
Cash payments to suppliers for goods and services	(1,969,826)	(2,310,065)	(2,191,944)	(27,718)	(1,705,726)	(225,396)	(8,430,675)
Cash payments to employees for services	(2,164,372)	(1,051,681)	(2,503,864)	(116,713)	(397,376)	(824,819)	(7,058,825)
Net cash (used in) provided by operating activities	\$ (244,194)	\$ 2,111,568	\$ 130,218	\$ 385,912	\$ (745,673)	\$ 32,844	\$ 1,670,675
Cash Flows from noncapital financing activities:							
Cash received from the General Fund	-	-	58,443	31,500	-	-	89,943
Net cash provided by noncapital financing activities	\$ -	\$ -	\$ 58,443	\$ 31,500	\$ -	\$ -	\$ 89,943
Cash Flows from capital and related financing activities:							
Acquisition and construction of capital assets	\$ (1,440,500)	\$ (2,708,615)	\$ (195,955)	\$ (10,406,291)	\$ (898,288)	\$ (16,793)	\$ (15,666,442)
Principal paid on general obligation bond maturities and equipment contracts	(906,753)	(1,027,005)	(187,415)	(125,000)	-	(5,945)	(2,252,118)
Interest paid on general obligation bonds and equipment contracts	(356,622)	(551,837)	(23,545)	(347,149)	-	(10,106)	(1,289,259)
Proceeds (including interest) from special assessments	65,686	58,269	-	-	-	-	123,955
Proceeds from sale of bonds	3,797,724	6,985,342	200,153	30,816,741	1,381,000	-	43,180,960
Net cash (used in) provided by capital and related financing activities	\$ 1,159,535	\$ 2,756,154	\$ (206,762)	\$ 19,938,301	\$ 482,712	\$ (32,844)	\$ 24,097,096
Cash Flows from investing activities:							
Interest on investments	\$ 127,160	\$ 163,276	\$ 18,101	\$ 733,664	\$ 397,737	\$ -	\$ 1,439,938
Net increase (decrease) in cash and cash equivalents	\$ 1,042,501	\$ 5,030,998	\$ -	\$ 21,089,377	\$ 134,776	\$ -	\$ 27,297,652
Cash and cash equivalents at the beginning of year	1,547,759	400,317	-	66,567	9,357,820	-	11,372,463
Cash and cash equivalents at the end of year	\$ 2,590,260	\$ 5,431,315	\$ -	\$ 21,155,944	\$ 9,492,596	\$ -	\$ 38,670,115

(Continued)

City of Rockville, Maryland

Statement of Cash Flows (continued) Proprietary Funds For the Year Ended June 30, 2006

Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

	Business-Type Activities - Enterprise Funds						Total Business-type Activities
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	
Operating Income (loss)	<u>\$ (1,327,971)</u>	<u>\$ 648,177</u>	<u>\$ 117,280</u>	<u>\$ 496,158</u>	<u>\$ (736,006)</u>	<u>\$ (99,585)</u>	<u>\$ (901,947)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation and amortization	1,011,853	868,152	247,865	11,312	128,018	71,237	2,338,437
Changes in assets and liabilities:							
(Increase) decrease in interfund payable	\$ -	\$ -	\$ (180,327)	\$ -	\$ -	\$ 143,987	\$ (36,340)
(Increase) decrease in accounts receivable	\$ (215,155)	\$ 593,150	\$ (70,353)	\$ -	\$ (215,610)	\$ -	\$ 92,032
Increase (decrease) in accounts payable	231,119	(44,423)	(3,024)	(1,239,776)	64,613	(55,605)	(1,047,096)
Increase (decrease) in accrued liabilities	23,200	31,204	18,777	129,002	(3,362)	1,717	200,538
Increase (decrease) in deferred revenue	-	-	-	582,532	-	(28,907)	553,625
Increase (decrease) in retainages payable	17,417	14,399	-	406,684	16,674	-	455,174
Increase in deposits and other liabilities	15,343	909	-	-	-	-	16,252
Total adjustments	<u>\$ 1,083,777</u>	<u>\$ 1,463,391</u>	<u>\$ 12,938</u>	<u>\$ (110,246)</u>	<u>\$ (9,667)</u>	<u>\$ 132,429</u>	<u>\$ 2,572,622</u>
Net cash provided (used) by operating activities	<u>\$ (244,194)</u>	<u>\$ 2,111,568</u>	<u>\$ 130,218</u>	<u>\$ 385,912</u>	<u>\$ (745,673)</u>	<u>\$ 32,844</u>	<u>\$ 1,670,675</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Fiduciary Net Assets Pension Trust Funds June 30, 2006

	Total Pension Trust Funds
Assets	
Open End Mutual Funds:	
Bonds	\$19,377,925
Equities	45,443,177
Fixed Income	<u>3,737,051</u>
Total	<u><u>\$68,558,153</u></u>
Liabilities	<u><u>\$ -</u></u>
<u>Net Assets</u>	
Held in trust for pension benefits	<u><u>\$68,558,153</u></u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Changes in Fiduciary Net Assets Pension Trust Funds For the Year Ended June 30, 2006

	<u>Total Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 1,926,330
Plan Members	<u>1,532,400</u>
Total Contributions	<u>\$ 3,458,730</u>
Investment Income	
Net appreciation in the fair value of plan investments	5,163,179
Interest and dividends	<u>25,226</u>
Total investment income	<u>5,188,405</u>
Total Additions	<u>\$ 8,647,135</u>
 Deductions	
Benefits	\$ 2,306,404
Refunds to terminated employees	328,725
Administrative expense	<u>30,914</u>
Total Deductions	<u>\$ 2,666,043</u>
 Net Increase	\$5,981,092
Net assets - beginning	<u>62,577,061</u>
Net assets - ending	<u><u>\$68,558,153</u></u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2006

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Rockville (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has an estimated population of 59,887 and a land area of 13.03 square miles. According to the 2000 census, Rockville is the third largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members. Services provided include water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development, and community services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

For financial reporting purposes, the government-wide financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Authority, but the City's accountability does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The City operates six major types of enterprise funds: The Water Facility Fund, the Sanitary Sewer Fund, the Refuse Fund, the Parking Fund, the Stormwater Management Fund, and the Golf Course Fund. These funds account for the provision of water and sewer services, the parking accounts for the parking meter program, parking violations and the planning, design, construction, and operation of proposed parking garages in the City's Town Center and storm water detention/retention facilities to residents within the City's service area. The Refuse Fund and RedGate Golf Course Fund do not meet the requirements of a major fund, however management has elected to report these funds as major. The refuse fund accounts for trash collections and RedGate Golf Course fund accounts for the operating and capital costs for the City's golf course facility.

Additionally, the government reports the following fund types:

The City's pension trust funds accounts for the contributions made by the City and its employees to finance future pension payments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements but interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, refuse, and stormwater management funds are charges to customers for sales and services. The water and sewer funds are also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. Pension trust fund assets are separately managed by the Principal Financial Group. Pension trust fund investments are stated at fair value and short-term investments of one year or less included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short-term investments include mutual funds and U.S. Treasury securities.

For purposes of the statement of cash flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro rata basis in accordance with average equity in pooled cash balances for the previous six months.

2. Property Taxes

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County bills and collects property taxes for the City and remits cash collections to the City once a month. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are thereafter, if delinquent, sold at public auction.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rate of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real property tax rate was \$0.322 per \$100 of assessed value and the personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2006. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

3. Inventories and Prepaid Items

All City inventories (included in other assets in the combined balance sheet) are maintained on a consumption basis of

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Inventories and Prepaid Items (Continued)

accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale or goods and materials used in providing services. Reservations of fund balance for the amounts of general fund inventories have been made to reflect the non-availability of those amounts for appropriation in the general fund.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Net Assets

The debt service fund is used to segregate resources accumulated for debt service payments for future years.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold for infrastructure items is \$25,000.

Description	Lives (In Years)
Buildings	40 - 50
Equipment	5 - 10
Furniture and fixtures	7 - 10
Automobiles and trucks	5 - 7
Water and sewer infrastructure	20 - 50
Stormwater management facilities	20 - 50

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused annual and sick leave benefits. All annual leave and sick leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Long-Term Obligations (Continued)

activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances are not legally required segregations, but rather represent the intent of the City's administration to use fund balances for specific purposes in the future.

Encumbrances related to grant-funded contracts may cause a deficit in the undesignated fund balance in some funds. This results from a timing difference between the recording of the original encumbrance of the contract and the recognition of the grant revenue when it is measurable and available.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

The City will first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds

A. Equity in Pooled Cash and Cash Equivalents

The City maintains a cash and investment pool that is available for use by all of the City's funds, except the pension trust funds.

The City is restricted by State law to invest in any federally insured bank in the State of Maryland, federally insured savings and loan association in the State of Maryland, or in the local government investment pool. The City primarily invests in the STI Classic Money Market Fund.

As of June 30, 2006 the City had the following investments included in the Statement of Net Assets and the Statement of Fiduciary Net Assets:

Investment Type	Fair Value
Money Market Funds	\$ 22,481,275
Federal Agency Discount Notes	26,563,249
Federal Agency Notes	16,074,757
	<hr/>
	\$ 65,119,281
Open End Mutual Funds	68,558,153
Total Fair Market Value of Investments	<hr/> <hr/>
	\$ 133,677,434

Deposits:

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the City must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Depository Insurance Corporation insurance levels with collateral whose market value is at the least equal to the deposits. As of June 30, 2006 all the City's deposits were either covered by federal depository insurance or covered by collateral held in the pledging banks trust department in the City's name.

Investments:

Credit Risk: The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. The Money Market Funds are rated "AAA" by Standard and Poor's and all the Federal Agency securities have the highest rating.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Interest rate risk is minimized due to the fact that all treasury securities are held to maturity as stated in section XVII of the City's investment policy. The money market funds and open-end mutual funds are highly liquid with no fixed maturity and therefore do not expose the City to interest rate risk.

Custodial Credit Risk: Custodial credit risk for investments is the risk that in the event of failure of a depository financial institution or counterparty to a transaction, the City will not recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk at June 30, 2006.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

B. Receivables

Receivables as of year end for all the government's individual funds are as follows:

Receivables	General	Capital Projects	Water	Sewer	Refuse	Parking	Stormwater Management	Golf Course	Total
Billed / Unbilled Utilities	-	-	902,460	1,036,002	1,094,130	865,903	393,170	1,941	\$ 4,293,606
Property Taxes	469,448	-	-	-	-	-	-	-	\$ 469,448
Due from Other Governments	2,019,938	1,070,319	-	-	-	-	-	-	\$ 3,090,257
Assessments Receivable	-	-	6,596	7,142	-	-	-	-	\$ 13,738
Accounts Receivable	132,879	-	-	-	-	-	-	-	\$ 132,879
Interfund Receivable	721,157	-	-	-	-	-	-	-	\$ 721,157
Other Receivables	-	-	54,060	69,061	7,197	424,938	118,202	-	\$ 673,458

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$1,894,976 at June 30, 2006, and is composed of the following:

General Fund property taxes receivable	\$ 1,873,109
Enterprise Funds utility bills receivable	21,867
	<u>\$ 1,894,976</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$ 469,448	\$ -
Special assessments not yet due (Debt Service Fund)	1,936,930	-
Pending Allocation-Utility Receipts	-	9,574
Recreation services not earned (General Fund)	-	841,421
Total deferred/unearned revenue for governmental funds	<u>\$ 2,406,378</u>	<u>\$ 850,995</u>

City of Rockville, Maryland

Notes to Basic Financial Statements June 30, 2006

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 7,843,832	\$ -	\$ -	\$ -	\$ 7,843,832
Construction in progress	53,376,522	16,325,776	-	(2,622,962)	67,079,336
Total capital assets, not being depreciated	<u>\$ 61,220,354</u>	<u>\$ 16,325,776</u>	<u>\$ -</u>	<u>\$ (2,622,962)</u>	<u>\$ 74,923,168</u>
Capital assets, being depreciated:					
Buildings	15,298,150	-	-	1,465,370	16,763,520
Improvements other than buildings	5,100,181	-	-	-	5,100,181
Equipment	8,798,970	1,246,053	(496,422)	-	9,548,601
Infrastructure	881,571	-	-	1,157,592	2,039,163
Total capital assets being depreciated	<u>\$ 30,078,872</u>	<u>\$ 1,246,053</u>	<u>\$ (496,422)</u>	<u>\$ 2,622,962</u>	<u>\$ 33,451,465</u>
Less accumulated depreciation for:					
Buildings	(6,986,243)	(286,894)	-	-	(7,273,137)
Improvements other than buildings	(1,763,011)	(154,644)	-	-	(1,917,655)
Equipment	(5,680,838)	(881,479)	496,422	-	(6,065,895)
Infrastructure	(67,004)	(46,903)	-	-	(113,907)
Total accumulated depreciation	<u>\$ (14,497,096)</u>	<u>\$ (1,369,920)</u>	<u>\$ 496,422</u>	<u>\$ -</u>	<u>\$ (15,370,594)</u>
Total capital assets, being depreciated, net	<u>15,581,776</u>	<u>(123,867)</u>	<u>-</u>	<u>2,622,962</u>	<u>18,080,871</u>
Governmental activities capital assets, net	<u><u>\$ 76,802,130</u></u>	<u><u>\$ 16,201,909</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 93,004,039</u></u>
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,058,940	\$ -	\$ -	\$ -	\$ 2,058,940
Construction in progress	26,113,315	16,583,246	-	(3,846,212)	38,850,349
Total capital assets, not being depreciated	<u>\$ 28,172,255</u>	<u>\$ 16,583,246</u>	<u>\$ -</u>	<u>\$ (3,846,212)</u>	<u>\$ 40,909,289</u>
Capital assets, being depreciated:					
Buildings	4,447,888	-	-	-	4,447,888
Improvements other than buildings	51,758,950	-	-	3,846,212	55,605,162
Equipment	5,351,261	502,241	(166,790)	-	5,686,712
Purchased capacity	15,279,453	-	-	-	15,279,453
Total capital assets being depreciated	<u>\$ 76,837,552</u>	<u>\$ 502,241</u>	<u>\$ (166,790)</u>	<u>\$ 3,846,212</u>	<u>\$ 81,019,215</u>
Less accumulated depreciation for:					
Buildings	(3,099,344)	(130,298)	-	-	(3,229,642)
Improvements other than buildings	(25,933,064)	(1,544,137)	-	-	(27,477,201)
Equipment	(4,484,223)	(327,030)	166,790	-	(4,644,463)
Purchased capacity	(1,139,119)	(305,589)	-	-	(1,444,708)
Total accumulated depreciation	<u>\$ (34,655,750)</u>	<u>\$ (2,307,054)</u>	<u>\$ 166,790</u>	<u>\$ -</u>	<u>\$ (36,796,014)</u>
Total capital assets, being depreciated, net	<u>42,181,802</u>	<u>(1,804,813)</u>	<u>-</u>	<u>3,846,212</u>	<u>44,223,201</u>
Business-type activities capital assets, net	<u><u>\$ 70,354,057</u></u>	<u><u>\$ 14,778,433</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 85,132,490</u></u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 421,676
Community Development	15,098
Community Services	11,255
Public Safety	92,660
Public Works	337,366
Recreation and Parks	491,865
Total depreciation expense - governmental activities	<u>\$ 1,369,920</u>
Business-Type Activities:	
Water	\$ 1,002,703
Sewer	850,930
Refuse	246,980
Parking	7,262
Stormwater Management	128,018
Golf Course	71,161
Total depreciation expense - business-type activities	<u>\$ 2,307,054</u>

D. Interfund Receivables, Payables and Transfers

The governmental interfund receivable as of June 30, 2006 consists of the following:

	Interfund Receivable - General Fund Total
Governmental Fund:	
Community Development Block Grant Fund	\$ 21,093
Proprietary Fund:	
Refuse Fund	150,989
RedGate Golf Course Fund	549,075
Total	<u>\$ 721,157</u>

The interfund payables from various funds represent cash overdrafts that are payable to the General Fund within one year.

Interfund transfers for the year ended June 30, 2006 consisted of the following

	Transfer From:
Transfer To:	General
Capital Project Fund	\$ 6,107,286
Debt Service Fund	5,383,112
Refuse Fund	58,443
Parking Fund	31,500
	<u>\$ 11,580,341</u>

Transfer from the General Fund to the Capital Projects Fund represents the City's budgeted pay-as-you-go funding.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

D. Interfund Receivables, Payables and Transfers (Continued)

Transfer from the General Fund to the Refuse Fund represents furnishing refuse pickup for Rockville Housing Enterprises.

Transfer from the General Fund to the Debt Service Fund represents resources to pay off general obligation bonds.

Transfer from the General Fund to the Parking Fund represents resources to pay off general obligation bonds.

E. Long-Term Debt

General Obligation Bonds, Bond Anticipation Notes and Loan Payable

General Obligation Bonds of approximately \$56 million were issued in September 2005. These bonds were issued mainly for the development of Town Center and the Town Center Parking Garages. Bond Anticipation Notes of \$12,350,000 plus accrued interest were paid off in December 2005.

General obligation bonds are direct city obligations against which the full faith and credit of the government is pledged. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds and loan payable currently outstanding are as follows:

	Year of Issuance	Outstanding Principal	Interest Rate Range	Year of Final Maturity
Governmental Activities				
General Improvements	1998	\$ 1,005,000	3.50 - 4.30%	2013
General Improvements - Equipment	2000	68,547	4.17 - 4.53%	2007
General Improvements	2002	1,970,990	4.00 - 4.65%	2021
General Improvements	2003	8,632,997	2.00 - 3.85%	2023
General Improvements - Refunding	2003	5,416,537	2.00 - 3.00%	2013
General Improvements	2004	10,265,000	4.00 - 5.00%	2029
Loan Payable	2005	512,393	2.00%	2012
General Improvements	2005	14,040,000	3.50 - 6.00%	2025
Total Governmental Activities		<u>\$ 41,911,464</u>		
Business-Type Activities				
General Improvements	1999	\$ 2,008,903	3.21%	2019
General Improvements	2000	1,533,236	3.64%	2020
General Improvements	2002	2,921,494	1.90%	2023
General Improvements	2002	2,604,010	4.00 - 4.65%	2021
General Improvements	2003	2,752,003	2.00 - 3.875%	2023
General Improvements - Refunding	2003	2,213,463	2.00 - 3.00%	2013
General Improvements	2004	7,295,000	4.00 - 5.00%	2029
General Improvements	2005	1,260,072	0.00%	2025
General Improvements	2005	41,195,000	3.50 - 6.00%	2036
Total Business-Type Activities		<u>\$ 63,783,181</u>		

The City anticipates that all amounts required for payment of interest and principal on business-type activities debt will be provided from the respective fund's revenues; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

Note: Principal amounts do not include unamortized bond discount of \$190,425 for Business – type Activities.

City of Rockville, Maryland

Notes to Basic Financial Statements June 30, 2006

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

City's long-term debt for Governmental Activities are payable during future years as follows:

Governmental Activities			
Fiscal Year Ending June 30,	Principal	Interest	Total Principal and Interest
2007	4,105,428	1,546,411	5,651,839
2008	4,033,922	1,411,970	5,445,892
2009	2,942,981	1,297,448	4,240,429
2010	2,939,031	1,190,477	4,129,508
2011	2,487,298	1,093,786	3,581,084
2012	2,462,120	1,009,220	3,471,340
2013	2,222,536	923,926	3,146,462
2014	1,905,061	840,955	2,746,016
2015	1,905,061	769,406	2,674,467
2016	1,905,061	699,854	2,604,915
2017	1,905,061	623,611	2,528,672
2018	1,905,061	546,322	2,451,383
2019	1,905,061	469,629	2,374,690
2020	1,905,061	392,362	2,297,423
2021	1,905,140	313,955	2,219,095
2022	1,765,678	234,580	2,000,258
2023	1,761,903	160,975	1,922,878
2024	1,260,000	85,425	1,345,425
2025	690,000	28,463	718,463
Total	\$ 41,911,464	\$ 13,638,775	\$ 55,550,239

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued) E. Long-Term Debt (Continued)

City's long-term debt for business type activities are payable during future years as follows:

Fiscal Year Ending June 30,	Water Facility				Sanitary Sewer		Refuse		Parking		RedGate Golf Course		Stormwater Management		Total Principal and Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	989,710	370,695	1,030,471	578,642	184,337	19,425	620,000	1,503,487	5,945	12,365	73,663	-	-	-	5,388,740	-
2008	958,477	341,895	1,028,595	538,672	186,338	13,768	650,000	1,468,887	5,945	12,246	66,319	-	-	-	5,271,142	-
2009	794,615	316,526	928,825	506,747	30,000	8,320	675,000	1,445,461	24,804	12,116	66,319	-	-	-	4,808,733	-
2010	798,287	293,476	926,554	470,874	30,000	6,400	710,000	1,413,061	24,803	11,526	66,319	-	-	-	4,751,300	-
2011	715,813	272,487	873,565	439,294	30,000	5,300	735,000	1,387,511	24,803	10,869	66,319	-	-	-	4,560,961	-
2012	720,975	252,566	866,752	408,673	30,000	4,200	760,000	1,361,061	24,803	10,162	66,319	-	-	-	4,505,511	-
2013	701,508	232,457	832,687	377,808	30,000	3,100	785,000	1,333,711	24,804	9,418	66,319	-	-	-	4,396,812	-
2014	683,781	212,110	800,135	345,921	30,000	1,900	820,000	1,302,312	24,803	8,674	66,319	-	-	-	4,295,955	-
2015	696,235	192,456	800,136	314,800	20,000	700	850,000	1,269,512	24,803	7,930	66,320	-	-	-	4,242,892	-
2016	709,065	173,327	800,136	284,906	-	-	885,000	1,238,699	24,804	7,156	66,320	-	-	-	4,189,413	-
2017	681,102	146,664	800,136	251,868	-	-	920,000	1,201,086	24,804	6,349	66,320	-	-	-	4,098,329	-
2018	598,349	115,356	795,135	218,553	-	-	960,000	1,161,894	24,803	5,505	66,320	-	-	-	3,945,915	-
2019	609,848	96,853	795,136	185,967	-	-	1,000,000	1,122,714	24,803	4,637	66,320	-	-	-	3,906,278	-
2020	376,896	68,307	795,135	153,156	-	-	1,040,000	1,081,894	24,803	3,744	66,320	-	-	-	3,610,255	-
2021	236,546	48,487	795,370	119,985	-	-	1,080,000	1,039,244	24,804	2,827	66,320	-	-	-	3,413,583	-
2022	237,497	40,535	619,518	86,575	-	-	1,125,000	994,669	24,803	1,896	66,320	-	-	-	3,196,813	-
2023	238,210	32,566	618,478	61,129	-	-	1,175,000	948,059	24,618	954	66,320	-	-	-	3,165,334	-
2024	175,000	14,438	480,000	35,213	-	-	1,220,000	898,609	-	-	66,320	-	-	-	2,889,580	-
2025	175,000	7,219	345,000	14,231	-	-	1,275,000	846,053	-	-	58,977	-	-	-	2,721,480	-
2026	-	-	-	-	-	-	1,330,000	791,140	-	-	-	-	-	-	2,121,140	-
2027	-	-	-	-	-	-	1,390,000	733,040	-	-	-	-	-	-	2,123,040	-
2028	-	-	-	-	-	-	1,450,000	672,300	-	-	-	-	-	-	2,122,300	-
2029	-	-	-	-	-	-	1,515,000	608,350	-	-	-	-	-	-	2,123,350	-
2030	-	-	-	-	-	-	1,580,000	541,525	-	-	-	-	-	-	2,121,525	-
2031	-	-	-	-	-	-	1,645,000	474,375	-	-	-	-	-	-	2,119,375	-
2032	-	-	-	-	-	-	1,715,000	404,463	-	-	-	-	-	-	2,119,463	-
2033	-	-	-	-	-	-	1,790,000	331,575	-	-	-	-	-	-	2,121,575	-
2034	-	-	-	-	-	-	1,865,000	255,500	-	-	-	-	-	-	2,120,500	-
2035	-	-	-	-	-	-	1,945,000	173,906	-	-	-	-	-	-	2,118,906	-
2036	-	-	-	-	-	-	2,030,000	88,813	-	-	-	-	-	-	2,118,813	-
Total	\$ 11,096,914	\$ 3,228,420	\$ 14,931,764	\$ 5,393,014	\$ 570,675	\$ 63,113	\$ 35,540,000	\$ 28,092,911	\$ 383,755	\$ 128,374	\$ 1,260,073	\$ -	\$ -	\$ -	\$ 100,689,013	\$ -

Note: Principal amounts do not include unamortized bond discount of \$190,425 for business-type activities.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued) E. Long-Term Debt (Continued)

The requirements to long-term debt are summarized as follows:

Governmental Activities			
Fiscal Year Ending June 30,	Principal and Interest		Total Principal and Interest
	Principal	Interest	
2007	4,105,428	1,546,411	5,651,839
2008	4,033,922	1,411,970	5,445,892
2009	2,942,981	1,297,448	4,240,429
2010	2,939,031	1,190,477	4,129,508
2011	2,487,298	1,093,786	3,581,084
2012 - 2016	10,399,839	4,243,361	14,643,200
2017 - 2021	9,525,384	2,345,879	11,871,263
2022 - 2026	5,477,581	509,443	5,987,024
Total	\$41,911,464	\$13,638,775	\$55,550,239

Business-Type Activities

Fiscal Year Ending June 30,	Water Facility		Sanitary Sewer		Refuse		Parking		Golf Course		Stormwater Management		Total Principal and Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	989,710	370,695	1,030,471	578,642	184,337	19,425	620,000	1,503,487	5,945	12,365	73,663	-	5,388,740	-
2008	958,477	341,895	1,028,595	538,672	186,338	13,768	650,000	1,468,887	5,945	12,246	66,319	-	5,271,142	-
2009	794,615	316,526	928,825	506,747	30,000	8,320	675,000	1,445,461	24,804	12,116	66,319	-	4,808,733	-
2010	798,287	293,476	926,554	470,874	30,000	6,400	710,000	1,413,061	24,803	11,526	66,319	-	4,751,300	-
2011	715,813	272,487	873,565	439,294	30,000	5,300	735,000	1,387,511	24,803	10,869	66,319	-	4,560,961	-
2012 - 2016	3,511,564	1,062,916	4,099,846	1,732,108	110,000	9,900	4,100,000	6,505,295	124,017	43,340	331,597	-	21,630,583	-
2017 - 2021	2,502,741	475,667	3,980,912	929,529	-	-	5,000,000	5,606,832	124,017	23,062	331,600	-	18,974,360	-
2022 - 2026	825,707	94,758	2,062,996	197,148	-	-	6,125,000	4,478,530	49,421	2,850	257,937	-	14,094,347	-
2027 - 2031	-	-	-	-	-	-	7,580,000	3,029,590	-	-	-	-	10,609,590	-
2032 - 2036	-	-	-	-	-	-	9,345,000	1,254,257	-	-	-	-	10,599,257	-
Total	\$11,096,914	\$ 3,228,420	\$14,931,764	\$ 5,393,014	\$ 570,675	\$ 63,113	\$35,540,000	\$28,092,911	\$ 383,755	\$ 128,374	\$ 1,260,073	\$ -	\$ 100,689,013	\$ -

City of Rockville, Maryland

Notes to Basic Financial Statements June 30, 2006

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2006, \$6,058,700 of bonds outstanding are considered defeased, \$1,666,200 pertaining to bonds that were accounted for in business-type activities, and \$4,392,500 relating to general obligations that were accounted for within the governmental activities group. In accordance with the applicable bond indentures, the trustees will continue to extinguish the defeased debt until 2011.

Changes in Long-Term Liabilities

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2006:

	Balance as of 6/30/05	Additions	Reductions	Net Amortization of Bond Discount/ Premium	Balance as of 6/30/06	Remaining Unamortized Bond (Discount) / Premium 6/30/06	Due within One Year
<u>Governmental Activities</u>							
General obligation bonds	\$ 30,526,921	\$ 14,950,000	\$ (4,098,665)	\$ 20,815	\$ 41,399,071		\$ 4,024,221
Bond anticipation notes	12,350,000	-	(12,350,000)	-	-	-	-
Loan payable-CELP	592,000	-	(79,607)	-	512,393	-	81,207
Accrued obligations for compensated absences	2,896,949	152,395	(7,124)	-	3,042,220	-	2,220,821
Governmental activity long-term liabilities	<u>\$ 46,365,870</u>	<u>\$ 15,102,395</u>	<u>\$ (16,535,396)</u>	<u>\$ 20,815</u>	<u>\$ 44,953,684</u>	<u>\$ -</u>	<u>\$ 6,326,249</u>
<u>Business-type Activities</u>							
General obligation bonds							
Water facility fund	7,585,032	4,303,107	(906,752)	5,622	10,987,009	(14,833)	989,710
Sanitary sewer fund	8,905,837	6,980,000	(1,027,005)	13,022	14,871,854	(65,212)	1,030,471
Refuse fund	555,048	200,000	(187,415)	832	568,465	(2,363)	184,337
Parking fund	4,834,229	30,810,000	(125,000)	3,666	35,522,895	(106,724)	620,000
Stormwater management fund	-	1,260,072	-	-	1,260,072	-	73,663
RedGate golf course fund	388,330	-	(5,945)	76	382,461	(1,293)	5,945
Accrued obligations for compensated absences	558,937	27,761	(28,880)	-	\$ 557,818	-	407,207
Business-type activity long-term liabilities	<u>\$ 22,827,413</u>	<u>\$ 43,580,940</u>	<u>\$ (2,280,997)</u>	<u>\$ 23,218</u>	<u>\$ 64,150,574</u>	<u>\$ (190,425)</u>	<u>\$ 3,311,333</u>

The compensated absences in the governmental activities will be paid out of the general fund.

City of Rockville, Maryland

Notes to Basic Financial Statements June 30, 2006

F. Restricted Assets

The balances of the restricted asset accounts in the proprietary funds are as follows:

Reserved for debt payment – Water Facility	\$169,400
Reserved for debt payment – Sanitary Sewer	209,118
Reserved for debt payment – Stormwater Management	75,000
	<u>\$ 453,518</u>

G. Operating Leases

The City entered into a ten year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year, thereafter. The City also has a five year office lease which began on June 1, 2003 and expires on May 31, 2008. Total annual rent is \$90,227 with an annual rent increase of 3% each year thereafter.

Year	Rent Amount
2007	\$ 202,184
2008	208,249
2009	109,899
2010	113,196
2011	116,592
2012 - 2014	371,187
Total	<u>\$ 1,121,307</u>

H. Construction Commitments

The City has various commitments under several construction projects as of June 30, 2006. The largest of these projects is the construction of Town Center. As of June 30, 2006 the City has \$3,500,000 remaining as its commitment with various contractors. The City has an agreement with the contractor, RD Rockville, to build a residential floor for each of the 3 parking decks. These floors of the parking decks will be used for private parking. The parking spaces were sold to the developer and the developer is reimbursing money to the City monthly over the construction period.

The City has an agreement with the County to receive \$12,000,000 for Town Center in accordance with a timeline established by a Memorandum of Understanding. As of June 30, 2006, \$2,317,000 has been received. The City also has a \$3,000,000 agreement with the State of Maryland for Town Center. As of June 30, 2006, the City has received \$1,500,000 from the State.

City of Rockville, Maryland

Notes to Basic Financial Statements June 30, 2006

(3) Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters; and employee health benefits.

The City participates in the Montgomery County Liability and Property Coverage self-insurance fund, under which participants share coverage for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage. The Montgomery County Division of Risk Management is the administrator of the fund. The City pays an annual premium to Montgomery County for its insurance coverage.

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Washington Suburban Sanitary Commission (WSSC)

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Waste Water Treatment Plant. Through June 30, 2006, the City had paid \$26,275,837 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$13,452,216 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided for in these statements is considered to be immaterial.

C. Other Post-employment Benefits

In addition to the pension benefits described in Note 3D, the City provides post-employment health benefits. The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(3) Other Information (Continued)

C. Other Post-employment Benefits (Continued)

The pension plan stipulates that eligible retirees from the administrative and union employee groups shall include those who (a) retire, having attained age 60 while employed with the City and who have completed at least 10 years of service prior to retirement, (b) take early retirement occasioned by poor health, having attained age 50 while employed with the City and having completed 10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Currently, the City finances the post employment health insurance benefits on a pay-as-you-go basis and expenditures for these insurance premiums are recorded in the General Fund. During fiscal year 2006, 33 retirees received post-employment health benefits. Expenditures of approximately \$33,407 were incurred by the City in furnishing these benefits.

D. Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has a made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Principal Financial Group is the administrator of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City of Rockville. The Public Employee Retirement System (PERS) is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds. The plans do not issue separate financial statements.

The PERS has a defined benefit option and a defined contribution option, which are reported as separate pension trust funds.

(1) Defined Benefit Option

This option is available to police employees, which participate 100 percent in the defined benefit option regardless of the date of employment and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a)(1) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service prior to April 1, 2004, plus (2) 2.25 percent of his/her final average earnings multiplied by his/her years of credited service on or after April 1, 2004, or (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

City of Rockville, Maryland

Notes to Basic Financial Statements June 30, 2006

(3) Other Information (Continued)

D. Pension Plan (Continued)

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1 percent of their salaries to the plan starting April 1, 1996. Employees are vested 100% after 10 years of service.

(2) Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is partially vested after three years and fully vested after seven years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. The contributions actually made in FY 06 for plan members were \$900,477 and the City contributed \$449,659.

Membership in the defined benefit plan consisted of the following at April 1, 2006, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving payments	146
Terminated plan members entitled to but not yet receiving payments	145
Active plan members	503
Total	<u>794</u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(3) Other Information (Continued)

D. Pension Plan (Continued)

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006

	Defined Contributions Option	Defined Benefit Option	Total Pension Trust Funds
<u>Additions</u>			
Contributions			
Employer	449,659	1,476,671	1,926,330
Plan members	900,477	631,923	1,532,400
Total contributions	<u>\$ 1,350,136</u>	<u>\$ 2,108,594</u>	<u>\$ 3,458,730</u>
Investment Income			
Net appreciation in the fair value of plan investments	900,569	4,262,610	5,163,179
Interest and dividends	25,226	-	25,226
Total investment income	<u>\$ 925,795</u>	<u>\$ 4,262,610</u>	<u>\$ 5,188,405</u>
Total additions	<u>\$ 2,275,931</u>	<u>\$ 6,371,204</u>	<u>\$ 8,647,135</u>
<u>Deductions</u>			
Benefits	\$ -	\$ 2,306,404	\$ 2,306,404
Refunds to terminated employees	328,725	-	328,725
Administrative expense	28,614	2,300	30,914
Total deductions	<u>\$ 357,339</u>	<u>\$ 2,308,704</u>	<u>\$ 2,666,043</u>
Net increase	1,918,592	4,062,500	5,981,092
Net assets - beginning	10,769,746	51,807,315	62,577,061
Net assets - ending	<u><u>\$ 12,688,338</u></u>	<u><u>\$ 55,869,815</u></u>	<u><u>\$ 68,558,153</u></u>

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006

	Defined Contributions Option	Defined Benefit Option	Total Pension Trust Funds
Assets			
Investments at fair value - equity in pooled pension trust	<u>\$ 12,688,338</u>	<u>\$ 55,869,815</u>	<u>\$ 68,558,153</u>
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets			
Available for plan benefits	<u><u>\$ 12,688,338</u></u>	<u><u>\$ 55,869,815</u></u>	<u><u>\$ 68,558,153</u></u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(3) Other Information (Continued)

D. Pension Plan (Continued)

Funding Policy and Annual Pension Cost - Defined Benefit Option

The employee contribution requirements for the plan are set by the Retirement Board. The City's annual contribution is based on annual actuarial valuations. The City of Rockville bears the cost of administering the pension plan.

Contribution rates	
City	5.29% - 13.24%
Plan members	0.00% - 8.50%
Annual pension cost	\$1,919,531
Contributions made	\$1,919,531
Actuarial valuation date	4/1/2006
Actuarial cost method	Entry age normal
Amortization method	Closed
Amortization period	20 years
Asset valuation method	
Fixed income assets	Contract basis
United States Stock	Four years smoothed market
Actuarial assumptions	
Investment rate of return	7.75%
Projected salary increases	3.88% - 8.10%
includes inflation at	3.00%
Cost of living adjustment	1.00%

City of Rockville, Maryland

Notes to Basic Financial Statements

June 30, 2006

(4) New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2006 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

- GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2008. This statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB plans) and supersedes existing guidance.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2009. This Statement will require governments to recognize an expense under the accrual basis for annual required OPEB contributions, regardless of amounts paid. This cumulative difference between amounts expensed and paid will create a liability (asset) similar to net pension obligations.
- GASB Statement No. 47, *Accounting for Termination Benefits* was effective for the City beginning after June 30, 2005. This statement provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. There were no voluntary or involuntary terminations during the current fiscal year.

THIS PAGE NOT USED

Required Supplementary Information

City of Rockville, Maryland

Public Employee Retirement System

June 30, 2006

(Unaudited - See Accompanying Independent Auditor's Report)

Schedule of Funding Progress

Historical trend information about pension plans is presented herewith as required supplementary information. This information is intended to help users assess pension plan funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. The amount shown in the historical trend information as the "actuarial accrued liability" is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Annual pension costs equal the employer's annual required contributions for all disclosed fiscal years.

Actuarial Valuation Date April 1	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A - B) Funded (Unfunded) AAL (FAAL) / UAAL	(A / B) Funded Ratio	(C) Covered Payroll	((A - B) / C) FAAL / UAAL as a percentage of Covered Payroll
2001	41,714,743	33,981,593	7,733,150	122.8%	19,394,622	39.9%
2002	45,290,157	42,191,423	3,098,734	107.3%	22,224,041	13.9%
2003	45,435,953	46,294,593	(858,640)	98.1%	23,900,022	-3.6%
2004	47,866,312	51,064,065	(3,197,753)	93.7%	25,211,836	-12.7%
2005	50,585,815	54,966,616	(4,380,801)	92.0%	25,290,170	-17.3%
2006	54,487,954	58,873,284	(4,385,330)	92.6%	26,243,676	-16.7%

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and funded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one an indication of the City's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in the funded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the funded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the City's progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the PERS.

City of Rockville, Maryland

Public Employee Retirement System

June 30, 2006

(Unaudited - See Accompanying Independent Auditor's Report)

Schedule of Employer Contributions

The PERS funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The actuarial assumptions used to compute the required contribution amount are the same as those used to compute the pension benefits earned. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service. The City of Rockville is required to contribute all amounts in excess of employee contributions necessary to fund this pension plan, using the entry age-normal actuarial method.

Plan Year Ending April 1	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	\$ 1,139,933	100%	\$ -
2002	\$ 1,190,163	100%	\$ -
2003	\$ 1,389,561	100%	\$ -
2004	\$ 1,529,727	100%	\$ -
2005	\$ 1,802,787	100%	\$ -
2006	\$ 1,919,531	100%	\$ -

Contributions have been made in accordance with actuarially determined requirements which have been computed each year.

City of Rockville, Maryland

Budgetary Comparison Schedule General Fund June 30, 2006

	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
Revenue				
Property Taxes	\$ 27,350,000	\$ 28,020,000	\$ 28,513,927	\$ 493,927
Revenue from Other Governments:				
Income taxes	6,750,000	7,200,000	9,035,343	1,835,343
Gas and motor vehicle taxes	3,000,000	3,000,000	3,097,689	97,689
County tax duplication payment	2,131,797	2,131,797	2,131,796	(1)
Admissions and amusement taxes	985,000	985,000	883,793	(101,207)
Grants and other governmental revenue	1,398,233	1,420,684	1,435,118	14,434
Licenses and permits	1,742,540	1,742,540	1,778,686	36,146
Charges for Services	4,318,266	4,332,266	4,586,595	254,329
Use of Money and Property	895,745	1,035,745	2,106,781	1,071,036
Fines and Forfeitures	636,000	836,000	799,486	(36,514)
Other Revenue	1,753,692	6,893,902	1,740,729	(5,153,173)
Total revenue	<u>\$ 50,961,273</u>	<u>\$ 57,597,934</u>	<u>\$ 56,109,943</u>	<u>\$ (1,487,991)</u>
Expenditures				
Current operations:				
General government	\$ 9,582,244	\$ 10,036,006	\$ 9,356,447	\$ 679,559
Community development	4,471,462	4,186,462	3,526,755	659,707
Community services	1,198,228	1,201,678	965,965	235,713
Public safety	6,784,719	6,811,693	6,662,819	148,874
Public works	5,488,515	5,673,108	5,253,643	419,465
Recreation and parks	14,125,146	14,439,741	13,786,689	653,052
Nondepartmental	3,754,019	3,828,906	2,884,558	944,348
Total expenditures	<u>\$ 45,404,333</u>	<u>\$ 46,177,594</u>	<u>\$ 42,436,876</u>	<u>\$ 3,740,718</u>
Excess of revenue over expenditures	<u>\$ 5,556,940</u>	<u>\$ 11,420,340</u>	<u>\$ 13,673,067</u>	<u>\$ 2,252,727</u>
Other Financing Uses				
Transfer to refuse fund	(58,443)	(58,443)	(58,443)	-
Transfer to capital projects fund	(1,067,286)	(6,107,286)	(6,107,286)	-
Transfer to Parking Fund	(31,500)	(31,500)	(31,500)	-
Transfer to debt service fund	(4,019,712)	(5,383,112)	(5,383,112)	-
Total other financing uses	<u>\$ (5,176,941)</u>	<u>\$ (11,580,341)</u>	<u>\$ (11,580,341)</u>	<u>\$ -</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	379,999	(160,001)	2,092,726	2,252,727
Fund balance at beginning of year	8,922,666	4,305,584	14,857,833	10,552,249
Fund balance at end of year	<u>\$ 9,302,665</u>	<u>\$ 4,145,583</u>	<u>\$ 16,950,559</u>	<u>\$ 12,804,976</u>

See accompanying notes to the basic financial statements and required supplementary information.

City of Rockville, Maryland

Budgetary Comparison Schedule Debt Service Fund June 30, 2006

	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
Revenue				
Assessments	\$ 353,947	\$ 353,947	\$ 330,053	\$ (23,894)
Use of money and property	60,000	60,000	273,241	213,241
Other revenue	-	-	35,764	35,764
Total Revenue	<u>\$ 413,947</u>	<u>\$ 413,947</u>	<u>\$ 639,058</u>	<u>\$ 225,111</u>
Expenditures				
Principal repayments:				
General obligation bonds	\$ 15,538,665	\$ 15,538,665	\$ 16,528,272	\$ (989,607)
Interest and issuance costs:				
General obligation bonds	1,434,835	2,890,235	1,705,140	1,185,095
Other	60,000	60,000	39,775	20,225
Total expenditures	<u>\$ 17,033,500</u>	<u>\$ 18,488,900</u>	<u>\$ 18,273,187</u>	<u>\$ 215,713</u>
Excess of revenue over expenditures	<u>\$ (16,619,553)</u>	<u>\$ (18,074,953)</u>	<u>\$ (17,634,129)</u>	<u>\$ 440,824</u>
Other Financing Sources				
Transfers in from general fund	4,019,712	5,383,112	5,383,112	-
Total Financing Sources	<u>\$ 4,019,712</u>	<u>\$ 5,383,112</u>	<u>\$ 5,383,112</u>	<u>\$ -</u>
Net change in fund balance	<u><u>\$ (12,599,841)</u></u>	<u><u>\$ (12,691,841)</u></u>	<u><u>\$ (12,251,017)</u></u>	<u><u>440,824</u></u>

City of Rockville, Maryland

Note to the Required Supplementary Information June 30, 2006

Stewardship, Compliance, and Accountability

Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to June 1, the City Manager submits to the Mayor and Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are then conducted to review the budget.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The budget ordinance becomes effective July 1 and provides spending authority for the operations of the City government. The legal control which the budget ordinance establishes over spending is at the fund level. Each of the general, special revenue, debt service and enterprise funds have legally adopted annual budgets appropriated at the fund level. The capital budget is adopted at the fund level but is not adopted as an annual budget.
- The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Mayor and Council.
- Subsequent to passage of the budget ordinance, the Mayor and Council may approve supplemental appropriations. During FY 2006, such supplemental appropriations for all funds amounted to \$8,983,823.

At the end of the fiscal year, unexpended operating budget appropriations of the governmental and enterprise funds lapse. Budgets for the general, special revenue, debt service, and enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, all governmental fund budgets are presented on the modified accrual basis of accounting; the enterprise fund budgets are adopted on the full accrual basis. The budgetary comparison schedules – original budget, amended budget and actual - general fund, compares actual expenditures on a basis consistent with the legally adopted budgets as amended.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is an extension of formal budgetary control in all governmental funds. The encumbrances outstanding at June 30, 2006, are reported as reservations of applicable fund balances and are subject to reappropriation by Council ordinance in the succeeding fiscal year.

THIS PAGE NOT USED

Other Supplementary Information

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources to be expended for specified purposes. The City maintains two funds: the Community Development Block Grant Fund and the Special Activities Fund. The Community Development Block Grant Fund accounts for federal grants for housing and community development programs. The Special Activities Fund accounts for funds raised for various community activities (i.e. Rockville Seniors Inc., mansion improvements, bike program, etc.).

City of Rockville, Maryland

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue		
	Special Activities Fund	Community Development Block Grant Fund	Total Nonmajor Governmental Funds
Assets			
Equity in pooled cash and cash equivalents	\$ 433,074	\$ -	\$ 433,074
Due from other governments	-	88,146	88,146
Other assets	4,688	-	4,688
Total assets	<u>\$ 437,762</u>	<u>\$ 88,146</u>	<u>\$ 525,908</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 8,610	\$ -	\$ 8,610
Interfund payable	-	21,093	21,093
Other	-	67,053	67,053
Total liabilities	<u>\$ 8,610</u>	<u>\$ 88,146</u>	<u>\$ 96,756</u>
Fund Balance:			
Unreserved:			
Undesignated	429,152	-	429,152
Total fund balance	<u>\$ 429,152</u>	<u>\$ -</u>	<u>\$ 429,152</u>
Total liabilities and fund balance	<u>\$ 437,762</u>	<u>\$ 88,146</u>	<u>\$ 525,908</u>

City of Rockville, Maryland

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds June 30, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	Special Activities Fund	Community Development Block Grant Fund	
Revenue			
Grant revenue	\$ -	\$ 294,481	\$ 294,481
Use of money and property	14,398	-	14,398
Other	315,138	-	315,138
Total Revenue	<u>\$ 329,536</u>	<u>\$ 294,481</u>	<u>\$ 624,017</u>
Expenditures			
Community development block grant	\$ -	\$ 294,481	\$ 294,481
Community services	190,049	-	190,049
Total expenditures	<u>\$ 190,049</u>	<u>\$ 294,481</u>	<u>\$ 484,530</u>
Excess of revenue over expenditures	<u>\$ 139,487</u>	<u>\$ -</u>	<u>\$ 139,487</u>
Net change in fund balance	139,487	-	139,487
Fund balance at beginning of year	<u>289,665</u>	<u>-</u>	<u>289,665</u>
Fund balance at end of year	<u><u>\$ 429,152</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 429,152</u></u>

City of Rockville, Maryland

Budgetary Comparison Schedule Nonmajor Governmental Funds June 30, 2006

	Special Activities Fund				Community Development Block Grant Fund				Total			
	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
Revenue												
Grant revenue	\$ 50,000	\$ 50,000	\$ -	\$ (50,000)	\$ 772,882	\$ 772,882	\$ 294,481	\$ (478,401)	\$ 822,882	\$ 822,882	\$ 294,481	\$ (528,401)
Use of money and property	2,930	2,930	14,398	11,468	-	-	-	-	2,930	2,930	14,398	11,468
Other	385,210	393,013	315,138	(77,875)	-	-	-	-	385,210	393,013	315,138	(77,875)
Total Revenue	\$ 438,140	\$ 445,943	\$ 329,536	\$ (116,407)	\$ 772,882	\$ 772,882	\$ 294,481	\$ (478,401)	\$ 1,211,022	\$ 1,218,825	\$ 624,017	\$ (594,808)
Expenditures												
Community develop. block grant	-	-	-	-	772,882	772,882	294,481	478,401	772,882	772,882	294,481	478,401
Community services	438,140	445,943	190,049	255,894	-	-	-	-	438,140	445,943	190,049	255,894
Total expenditures	\$ 438,140	\$ 445,943	\$ 190,049	\$ 255,894	\$ 772,882	\$ 772,882	\$ 294,481	\$ 478,401	\$ 1,211,022	\$ 1,218,825	\$ 484,530	\$ 734,295
Excess of revenue over expenditures	\$ -	\$ -	\$ 139,487	\$ 139,487	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,487	\$ 139,487
Net change in fund balance	\$ -	\$ -	\$ 139,487	\$ 139,487	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,487	\$ 139,487

THIS PAGE NOT USED

Other Supplementary Information

Proprietary Funds

Enterprise Funds

Budgetary comparison schedule for the water, sewer, refuse, stormwater management and redgate golf course.

City of Rockville, Maryland

Budgetary Comparison Schedule Enterprise Funds June 30, 2006

	Water Facilities Fund				Sanitary Sewer Fund				Refuse Fund			
	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
Total revenue	\$ 4,769,600	\$ 4,769,600	\$ 3,955,830	\$ (813,770)	\$ 6,027,004	\$ 6,027,004	\$ 5,473,314	\$ (553,690)	\$ 4,935,894	\$ 4,935,894	\$ 4,826,026	\$ (109,868)
Total operating expenses	4,232,297	4,232,297	4,271,948	(39,651)	4,766,348	4,766,348	3,956,985	809,363	4,771,635	4,859,179	4,460,881	398,298
Operating income (loss) before depreciation and amortization	\$ 537,303	\$ 537,303	\$ (316,118)	\$ (853,421)	\$ 1,260,656	\$ 1,260,656	\$ 1,516,329	\$ 255,673	\$ 164,259	\$ 76,715	\$ 365,145	\$ 288,430
Depreciation and amortization	(956,390)	(956,390)	(1,011,853)	(55,463)	(964,576)	(964,576)	(868,152)	96,424	(383,914)	(340,015)	(247,865)	92,150
Operating income (loss)	\$ (419,087)	\$ (419,087)	\$ (1,327,971)	\$ (908,884)	\$ 296,080	\$ 296,080	\$ 648,177	\$ 352,097	\$ (219,655)	\$ (263,300)	\$ 117,280	\$ 380,580
<u>Non-Operating Income (Expenses)</u>												
Interest income	45,902	45,902	138,615	92,713	31,928	31,928	175,872	143,944	2,500	2,500	18,101	15,601
Interest expense	(250,998)	(250,998)	(356,521)	(105,523)	(328,008)	(328,008)	(551,837)	(223,829)	(16,707)	(23,547)	(23,545)	2
Total non-operating income (expense)	\$ (205,096)	\$ (205,096)	\$ (217,906)	\$ (12,810)	\$ (296,080)	\$ (296,080)	\$ (375,965)	\$ (79,885)	\$ (14,207)	\$ (21,047)	\$ (5,444)	\$ 15,603
Income (loss) before operating transfers	\$ (624,183)	\$ (624,183)	\$ (1,545,877)	\$ (921,694)	\$ -	\$ -	\$ 272,212	\$ 272,212	\$ (233,862)	\$ (284,347)	\$ 111,836	\$ 396,183
Transfer in from General Fund	-	-	-	-	-	-	-	-	36,792	36,792	58,443	21,651
Net increase (decrease) in net assets	\$ (624,183)	\$ (624,183)	\$ (1,545,877)	\$ (921,694)	\$ -	\$ -	\$ 272,212	\$ 272,212	\$ (197,070)	\$ (247,555)	\$ 170,279	\$ 417,834

Budgetary Comparison Schedule
Enterprise Funds (con't)
June 30, 2006

City of Rockville, Maryland

STATISTICAL SECTION

The Statistical Section presents detailed information for the primary government in the following areas, as a context for understanding what the information in the Financial Section says about the City's overall financial health:

FINANCIAL TRENDS - Information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY - Information to help the reader assess the City's most significant local revenue source, the property tax.

DEBT CAPACITY - Information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION - Indicators to help the reader understand how the environment within which the City's financial activities take place.

OPERATING INFORMATION - Service and infrastructure data to help the reader understand how the information in the City's Financial report relates to the services the City provides and the activities it performs.

Many of the tables cover more than two fiscal years and present data from outside accounting records. Therefore, the Statistical Section is unaudited.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning that year.

City of Rockville, Maryland

Financial Trends Information Net Assets by Category Government Wide, Last Four Fiscal Years (accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	\$ 14,142,832	\$ 25,074,886	\$ 33,333,209	\$ 51,236,426
Restricted for capital projects	-	1,800,000		
Unrestricted	15,277,069	7,806,848	23,945,011	20,929,341
Total Governmental Activities Net Assets	<u>\$ 29,419,901</u>	<u>\$ 34,681,734</u>	<u>\$ 57,278,220</u>	<u>\$ 72,165,767</u>
Business-Type Activities				
Invested in Capital Assets, Net of Related Debt	\$ 34,270,960	\$ 44,096,729	\$ 48,085,580	\$ 21,845,283
Unrestricted	23,317,986	12,942,474	9,806,139	35,508,729
Total Business-Type Activities Net Assets	<u>\$ 57,588,946</u>	<u>\$ 57,039,203</u>	<u>\$ 57,891,719</u>	<u>\$ 57,354,012</u>
Primary Government				
Invested in Capital Assets, Net of Related Debt	\$ 48,413,792	\$ 69,171,615	\$ 81,418,789	\$ 73,081,709
Restricted for capital projects		\$ 1,800,000		
Unrestricted	38,595,055	20,749,322	23,945,011	56,438,070
Total Primary Government Net Assets	<u>\$ 87,008,847</u>	<u>\$ 91,720,937</u>	<u>\$ 105,363,800</u>	<u>\$ 129,519,779</u>

City of Rockville, Maryland

Financial Trends Information Changes in Net Assets by Category, Government Wide, Last Four Fiscal Years (accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 8,918,307	\$ 8,621,681	\$ 9,181,896	\$ 10,182,325
Community development block grant	401,357	412,712	357,432	294,481
Community development	1,471,759	1,534,045	1,607,760	3,565,924
Community services	1,268,156	1,319,078	1,200,217	1,036,754
Public Safety	7,298,573	7,933,531	8,130,281	6,989,835
Public Works	5,567,832	6,002,839	5,743,222	5,596,654
Recreation and parks	14,875,969	14,347,079	14,174,780	14,335,067
Non-departmental	1,841,600	2,259,160	3,102,804	2,884,558
Interest on long-term debt	761,419	804,164	1,546,093	1,708,598
Total governmental activities expenses	<u>42,404,972</u>	<u>43,234,289</u>	<u>45,044,485</u>	<u>46,594,196</u>
Business-type activities:				
Water	4,296,885	4,410,814	4,333,962	5,412,906
Sewer	4,299,970	4,435,977	4,214,334	4,844,716
Refuse	4,024,746	4,177,891	4,222,021	4,315,562
Parking	-	114,945	312,212	494,594
Stormwater management	623,958	747,521	1,622,590	1,952,276
Golf course	1,259,282	1,128,753	1,074,327	1,019,370
Total business-type activities expenses	<u>14,504,841</u>	<u>15,015,901</u>	<u>15,779,446</u>	<u>18,039,424</u>
Total primary government expenses	<u>\$ 56,909,813</u>	<u>\$ 58,250,190</u>	<u>\$ 60,823,931</u>	<u>\$ 64,633,620</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 265,752	\$ 498,049	\$ 777,636	\$ 679,403
Community development	2,547,481	1,579,469	1,650,981	1,543,426
Community services	275,276	354,679	306,176	38,092
Public Safety	67,151	74,814	109,358	629,162
Public Works	296,597	578,549	274,988	540,524
Recreation and parks	4,250,600	4,240,368	4,279,807	5,087,899
Non-departmental	196,904	218,428	-	217,125
Interest on long-term debt	-	83,975	97,226	143,851
Operating grants and contributions	1,535,694	1,552,619	1,522,497	1,212,180
Capital grants and contributions	3,429,666	3,101,162	5,587,548	4,541,337
Total governmental activities program revenues	<u>12,865,121</u>	<u>12,282,112</u>	<u>14,606,217</u>	<u>14,632,999</u>
Business type activities:				
Water	4,312,310	3,695,205	3,823,733	3,955,830
Sewer	5,789,796	5,300,119	5,424,798	5,473,314
Refuse	3,650,023	4,165,770	4,552,581	4,884,469
Parking	-	511,154	581,869	607,752
Stormwater management	867,323	747,894	1,121,963	1,357,430
Golf course	1,395,529	1,151,069	1,102,123	1,083,059
Operating grants and contributions	-	-	-	-
Capital grants and contributions	-	-	1,000,000	-
Total business-type activities program revenues	<u>16,014,981</u>	<u>15,571,211</u>	<u>17,607,067</u>	<u>17,361,854</u>
Total primary government revenues	<u>\$ 28,880,102</u>	<u>\$ 27,853,323</u>	<u>\$ 32,213,284</u>	<u>\$ 31,994,853</u>

City of Rockville, Maryland

Financial Trends Information Changes in Net Assets by Category, Government Wide, Last Four Fiscal Years (continued) (accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Net (Expense)/Revenue				
Governmental activities	\$ (29,539,851)	\$ (30,952,177)	\$ (30,438,268)	\$ (31,961,197)
Business-type activities	1,510,140	555,310	1,827,621	(677,570)
Total primary government net expense	<u>\$ (28,029,711)</u>	<u>\$ (30,396,867)</u>	<u>\$ (28,610,647)</u>	<u>\$ (32,638,767)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Property taxes	\$ 21,939,085	\$ 22,963,744	\$ 25,980,805	\$ 28,253,720
Income taxes	6,281,463	7,019,649	7,874,409	9,035,343
Gas and motor vehicle taxes	2,564,114	1,991,434	2,497,974	3,097,689
County tax duplications payment	1,482,285	1,259,511	1,698,450	2,131,796
Admissions and amusement taxes	1,079,393	1,023,395	882,405	883,793
Use of money and property	175,598	163,345	362,566	1,577,137
Other Revenue	384,537	499,605	438,033	445,674
Gain on sale of capital assets	-	-	11,920,985	-
Transfers	1,231,384	1,293,327	1,382,127	1,423,592
Total governmental activities	<u>35,137,859</u>	<u>36,214,010</u>	<u>53,037,754</u>	<u>46,848,744</u>
Business-type activities:				
Use of money and property	178,343	188,274	305,584	1,463,990
Gain on sale of capital assets	-	-	101,438	99,465
Transfers	(1,231,384)	(1,293,327)	(1,382,127)	(1,423,592)
Total business-type activities	<u>(1,053,041)</u>	<u>(1,105,053)</u>	<u>(975,105)</u>	<u>139,863</u>
Total primary government	<u>\$ 34,084,818</u>	<u>\$ 35,108,957</u>	<u>\$ 52,062,649</u>	<u>\$ 46,988,607</u>
Changes in Net Assets				
Governmental activities	5,598,008	5,261,833	22,599,486	14,887,547
Business-type activities	457,099	(549,743)	852,516	(537,707)
Total primary government	<u>\$ 6,055,107</u>	<u>\$ 4,712,090</u>	<u>\$ 23,452,002</u>	<u>\$ 14,349,840</u>

City of Rockville, Maryland

Financial Trends Information Fund Balances, Governmental Funds, Last Four Fiscal Years (modified accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$ 1,127,492	\$ 985,414	\$ 933,875	\$ 868,548
Undesignated	9,444,316	10,595,897	13,923,958	16,082,011
Total general fund	<u>\$ 10,571,808</u>	<u>\$ 11,581,311</u>	<u>\$ 14,857,833</u>	<u>\$ 16,950,559</u>
 All Other Governmental Funds				
Reserved	\$ 4,835,518	\$ 10,027,786	\$ 24,713,202	\$ 4,643,863
Undesignated, reported in:				
Special revenue funds	415,209	276,905	289,665	429,152
Capital projects funds	2,367,186	(1,373,602)	(17,887,390)	-
Debt service funds	-	-	-	-
Total all other governmental funds	<u>\$ 7,617,913</u>	<u>\$ 8,931,089</u>	<u>\$ 7,115,477</u>	<u>\$ 5,073,015</u>

City of Rockville, Maryland

Financial Trends Information Changes in Fund Balances, Governmental Funds, Last Four Fiscal Years (modified accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Revenues				
Property taxes	\$ 21,496,983	\$ 23,386,926	\$ 26,229,753	\$ 28,513,927
Assessments	433,831	367,247	360,495	330,053
Revenue from other governments:	-	-	-	-
Community development block grant	401,357	412,712	357,432	294,481
Income taxes	6,281,463	7,019,049	7,874,409	9,035,343
Gas and motor vehicle taxes	2,564,114	1,991,434	2,497,974	3,097,689
County tax duplication payment	1,482,285	1,259,511	1,698,450	2,131,796
Admissions and amusement taxes	1,079,393	1,023,395	882,405	883,793
Grants and other governmental revenue	4,511,086	1,992,244	3,392,122	6,643,871
Licenses and permits	2,360,679	1,699,991	1,638,646	1,778,686
Charges for services	4,745,633	6,951,909	4,262,498	4,586,595
Use of money and property	813,154	769,971	1,007,890	2,488,505
Fines and forfeitures	157,787	285,253	811,771	799,486
Other revenue	1,670,470	1,937,796	4,313,827	2,500,074
Total revenues	<u>\$ 47,998,235</u>	<u>\$ 49,097,438</u>	<u>\$ 55,327,672</u>	<u>\$ 63,084,299</u>
Expenditures				
Current operations:				
General government	8,182,608	8,185,223	8,180,536	9,356,447
Community development block grant	401,357	412,712	357,432	294,481
Community development	1,412,115	1,628,277	1,579,939	3,526,755
Community services	1,434,814	1,496,033	1,360,851	1,156,014
Public safety	7,078,902	7,603,115	7,985,542	6,662,819
Public works	5,160,692	5,232,331	5,315,785	5,253,643
Recreation and parks	12,726,536	13,323,501	13,348,331	13,786,689
Nondepartmental	1,926,597	2,311,980	2,598,367	2,884,558
Capital outlay	9,747,004	26,821,896	31,495,042	16,699,499
Debt service	2,836,345	3,571,114	4,344,923	18,273,187
Total expenditures	<u>\$ 50,906,970</u>	<u>\$ 70,586,182</u>	<u>\$ 76,566,748</u>	<u>\$ 77,894,092</u>
Excess (deficiency) revenue over expenditures	<u>\$ (2,908,735)</u>	<u>\$ (21,488,744)</u>	<u>\$ (21,239,076)</u>	<u>\$ (14,809,793)</u>
Other Financing Sources (Uses)				
Transfers in	6,656,479	4,501,050	18,698,629	11,490,398
Transfers out	(6,693,271)	(4,537,842)	(18,735,421)	(11,580,341)
Proceeds from sale of capital assets	-	-	22,144,778	-
General obligation bonds issued	10,347,994	23,765,000	-	14,950,000
Loan payable issued	-	-	592,000	-
Total other financing sources (uses)	<u>\$ 10,311,202</u>	<u>\$ 23,728,208</u>	<u>\$ 22,699,986</u>	<u>\$ 14,860,057</u>
Net change in fund balances	<u>\$ 7,402,467</u>	<u>\$ 2,239,464</u>	<u>\$ 1,460,910</u>	<u>\$ 50,264</u>
Debt Service as percentage of non-capital expenditures	5.57%	5.06%	5.67%	23.46%

City of Rockville, Maryland

Revenue Capacity Information Assessed and Estimated Actual Value of Taxable Property, Last Ten Fiscal Years

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Privately Owned Public Utilities	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Total Assessed Value to Estimated Actual Value
1997	\$1,668,807,846	\$ 373,489,840	\$ 89,894,800	\$2,132,192,486	0.820	\$4,786,358,338	44.55%
1998	1,684,271,005	320,740,290	90,462,140	2,095,473,435	0.820	4,761,471,520	44.01%
1999	1,750,113,882	286,113,760	94,941,830	2,131,169,472	0.815	4,900,696,795	43.49%
2000	N/A	N/A	N/A	N/A	0.805	N/A	N/A
2001	1,952,589,315	327,180,110	104,083,470	2,383,852,895	0.805	5,312,736,868	44.87%
2002	5,365,409,658	346,798,430	128,933,300	5,841,141,388	0.322	5,841,141,388	100.00%
2003	5,921,959,542	358,574,751	112,825,340	6,393,359,633	0.322	6,393,359,633	100.00%
2004	6,312,353,479	294,840,190	110,712,160	6,717,905,929	0.322	6,717,905,829	100.00%
2005	7,193,741,551	286,635,530	115,241,520	7,595,618,601	0.322	7,595,618,601	100.00%
2006	7,539,816,746	282,505,725	118,952,785	7,941,275,256	0.322	7,941,275,256	100.00%

Note: As part of State Law, all real property will be assessed at 100 percent of value, rather than 40 percent for the tax year beginning July 1, 2001.

City of Rockville, Maryland

Revenue Capacity Information Direct and Overlapping Property Tax Rates, Last Ten Fiscal Years

Fiscal Year	City	Overlapping Rates	
	Total Direct	Montgomery County	State of Maryland
1997	0.820	2.321	0.210
1998	0.820	2.319	0.210
1999	0.820	2.292	0.210
2000	0.815	2.258	0.210
2001	0.805	2.253	0.210
2002	0.805	0.901	0.210
2003	0.322	0.910	0.084
2004	0.322	0.914	0.132
2005	0.322	0.902	0.132
2006	0.322	0.856	0.132

Note: There is no city, school, county or state tax rate

City of Rockville, Maryland

Revenue Capacity Information Principal Real Property Tax Payers, Current Year and Nine Years Ago

For the Fiscal Year Ended June 30, 2006

	Assessable Base			Ratio: Taxpayer Base to Total Assessable Base
	Total	Real Property	Personal Property	
Prentiss Property Research	\$ 66,782,400	\$ 66,782,400	\$ -	0.80%
Realty Associates Fund, LLP	64,963,800	64,963,800	-	0.78%
Potomac Electric Power	53,569,644	-	53,569,644	0.64%
Verizon	42,566,985	-	42,566,985	0.51%
Research Grove Associates	41,500,000	41,500,000	-	0.50%
TA/Western LLC	41,281,700	41,281,700	-	0.49%
Syn Rock, LLC	41,318,700	41,318,700	-	0.49%
Transwestern Gateway, LLC	39,135,000	39,135,000	-	0.47%
Hub Woodmont, Inc.	35,503,200	35,503,200	-	0.42%
Prime 1801, LLC	34,481,800	34,481,800	-	0.41%
Total	<u>\$ 461,103,229</u>	<u>\$ 364,966,600</u>	<u>\$ 96,136,629</u>	<u>5.51%</u>
Total Assessable Value	<u>\$ 8,364,016,080</u>			<u>100.00%</u>

For the Fiscal Year Ended June 30, 1997

	Assessable Base			Ratio: Taxpayer Base to Total Assessable Base
	Total	Real Property	Personal Property	
General Electric	\$ 55,381,570	\$ -	\$ 55,381,570	2.66%
General Electric Power	36,121,120	-	36,121,120	1.73%
MCI Telecommunications	33,841,130	-	33,841,130	1.62%
Milton Polinger, et at.	27,793,830	27,793,830	-	1.33%
Bell Atlantic	25,209,880	-	25,209,880	1.21%
Computer Leasing	19,027,710	-	19,027,710	0.91%
Congressional Plaza Associates	17,883,560	17,883,560	-	0.86%
Twinbrook Associates	17,322,700	17,322,700	-	0.83%
Tower-Dawsom Ltd.	16,750,320	16,750,320	-	0.80%
Prudential Insurance Co.	14,638,550	14,638,550	-	0.70%
Total	<u>\$ 263,970,370</u>	<u>\$ 94,388,960</u>	<u>\$ 169,581,410</u>	<u>12.65%</u>
Total Assessable Value	<u>\$ 2,085,293,045</u>			<u>100.00%</u>

Source: State of Maryland Department of Assessment and Taxation.

City of Rockville, Maryland

Revenue Capacity Information Property Tax Levies and Collections, Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year of the Levy	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 17,495,023	\$ 16,427,176	93.9%	\$ 780,954	\$ 17,208,130	98.4%
1998	17,194,378	16,900,149	98.3	(329,671)	16,570,478	96.4
1999	17,218,483	16,652,168	96.7	616,202	17,268,370	100.3
2000	17,569,656	17,245,761	98.2	83,500	17,329,261	98.6
2001	18,696,967	18,122,645	96.9	315,853	18,438,498	98.6
2002	20,747,696	19,546,914	94.2	842,049	20,388,963	98.3
2003	22,578,731	21,732,287	96.3	(235,304)	21,496,983	95.2
2004	24,315,580	23,325,909	95.9	61,017	23,386,926	96.2
2005	26,398,958	26,027,181	98.6	87,464	26,114,645	98.9
2006	28,956,431	28,410,726	98.1	91,920	28,502,646	98.4

City of Rockville, Maryland

Debt Capacity Information Ratios of Outstanding Debt by Type, Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Business-Type Activities		Percentage of Personal Income	Per Capita
	General Obligation Bonds	Loan Payable	General Obligation Bonds	Total Primary Government		
1997	\$ 23,816,885	-	\$ 8,610,745	\$ 32,429,627	6.25%	\$695
1998	21,313,045	-	7,714,877	29,029,920	7.16	611
1999	21,253,062	-	7,925,620	29,180,681	7.52	608
2000	19,563,306	-	8,595,031	28,160,337	8.48	579
2001	16,604,107	-	8,701,478	25,307,586	9.68	517
2002	16,771,487	-	11,736,799	28,510,288	9.34	576
2003	35,295,444	-	18,656,273	53,953,720	5.13	1,046
2004	46,024,724	-	22,923,193	68,949,921	4.49	1,315
2005	42,918,551	592,000	22,500,169	66,012,725	N/A	1,145
2006	41,399,071	512,393	63,592,756	105,504,220	N/A	1,782

Notes: Population estimates for 2000 reflect the U.S. Bureau of the Census data. All other years are City of Rockville Department of Community Planning and Development Services estimates.

City of Rockville, Maryland

Debt Capacity Information Ratios of General Bonded Debt Outstanding, Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
1997	\$ 32,427,630	1.10%	\$516
1998	29,027,922	0.09	475
1999	29,178,682	0.09	414
2000	28,158,337	0.08	380
2001	25,305,585	0.07	348
2002	28,508,286	0.02	330
2003	53,951,717	.05/.03	304
2004	68,947,917	.06/.04	607/326
2005	65,989,905	.03/.04	737/523
2006	105,504,220	.06/.04	671/463

Notes:

On September 8, 2003, the City paid off \$14,715,000 of 1993 series general obligation bonds, which were refunded on June 1, 2003, see footnote (2) E for details. Based upon the above information the restated ratios as of September 8 for adjusted net bonded debt to assessed value is 0.3%, the adjusted net bonded debt per capita would be \$326 and adjusted net bonded debt per capita as a percentage of per capita income would be 1.1% and the ratio for adjusted net bonded debt to assessed value is 0.3%.

The City issued \$12,350,000 of short-term Bond Anticipation Notes (BAN's) in June 2004 for costs associated with the redevelopment of Town Center. The BAN's was repaid with the developer contributions during FY 2006. Based upon the above information the restated dollar amount for adjusted net bonded debt per capital would be \$463, adjusted net bonded debt per capita as a percentage of per capita income would be 1.9% and the ratio for adjusted net bonded debt to assessed value is 0.4%.

On September 23, 2005, the City issued \$56,735,000 in general obligation bonds for costs associated with the development of Town Center. Based upon the above information the restated dollar amount for adjusted net bonded debt per capita would be \$463, adjusted net bonded debt per capita as a percentage of per capita income would be 2.0% and the ratio for adjusted net bonded debt to assessed value is 0.4%

City of Rockville, Maryland

Debt Capacity Information Direct and Overlapping Governmental Activities Debt

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
City of Rockville	41,911,464	100.00%	41,911,464
Montgomery County, Maryland	<u>1,724,519,978</u>	7.02%	<u>245,658,116</u>
Total direct and overlapping debt	<u><u>\$ 1,766,431,442</u></u>		<u><u>\$287,569,580</u></u>

Notes:

Excludes County debt not attributable to the City of Rockville.

The City is not restricted by legal debt limit.

Based on 2006 assessed valuations reported by the State of Maryland Department of Assessments and Taxation.

City of Rockville, Maryland

Debt Capacity Information Legal Debt Margin Information, Last Ten Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2006	
Assessed Value	\$ 7,941,275,256
Debt limit (15% of assessed value)	\$ 1,191,191,288
Debt applicable to limit:	
General Obligation Bonds	41,542,922
Total net debt applicable to limit	-
Legal debt margin	\$ 1,149,648,366

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 717,953,751	\$ 714,220,728	\$ 735,104,519	N/A	\$ 769,910,530	\$ 876,171,208	\$ 959,003,945	\$ 1,007,685,874	\$ 1,139,342,790	\$ 1,191,191,288
Total net debt applicable to limit	23,816,885	21,313,045	21,253,062	19,563,306	16,604,107	16,771,487	35,295,444	46,024,724	42,918,551	41,542,922
Legal debt margin	\$ 694,136,866	\$ 692,907,683	\$ 713,851,457	\$ 19,563,306	\$ 753,306,423	\$ 859,399,721	\$ 923,708,501	\$ 961,661,150	\$ 1,096,424,239	\$ 1,149,648,366
Total legal debt margin as a percentage of debt limit	3.31%	2.98%	2.89%	N/A	2.16%	1.91%	3.68%	4.56%	3.76%	3.48%

City of Rockville, Maryland

Demographic and Economic Information Demographic and Economic Statistics, Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
1997	47,513	\$2,027,142	\$42,665	2.20%
1998	48,025	2,080,683	43,325	2.60
1999	48,618	2,195,102	45,150	2.80
2000	48,920	2,390,769	48,871	1.90
2001	49,511	2,452,131	49,257	2.30
2002	51,578	2,665,086	51,671	2.80
2003	52,401	2,770,650	52,874	2.60
2004	57,619	3,097,251	53,754	3.10
2005	59,552	N/A	N/A	3.30
2006	59,887	N/A	N/A	3.20

Notes: Population estimates for 2000 reflect the U.S. Bureau of the Census data. All other years are City of Rockville Department of Community Planning and Development Services estimates.

City of Rockville, Maryland

Demographic and Economic Information Principal Employers, Current Year and Nine Years Ago

Employer	Fiscal Year 2006		Percentage of Total City Employment	Fiscal Year 1997		Percentage of Total City Employment
	Employees	Rank		Employees	Rank	
Westat Inc.	1,800	1	7.30%	950	7	3.26%
Aspen Systems	800	2	3.24%	1,500	4	5.15%
Wolpoff & Abramson, LLP	700	3	2.84%	*		0.00%
United Healthcare/Mid Atlantic Medical Services	613	4	2.49%	2,600	1	8.93%
Community Services for Autistic Adult & Children	545	5	2.21%	*		0.00%
Booz Allen Hamilton	500	6	2.03%	*		0.00%
BAE Applied Technologies	400	7	1.62%	1,700	3	5.84%
APECO Inc.	400	7	1.62%	*		0.00%
Thompson Financial	375	8	1.52%	*		0.00%
EU Services	373	10	1.51%	*		0.00%
GE Information Services	*		0.00%	2,360	2	8.11%
Computer Data Systems	*		0.00%	1,050	5	3.61%
Hewlett Packard Company	*		0.00%	1,000	6	3.44%
Alpha Scientific Inc.	*		0.00%	600	8	2.06%
Quest Diagnostics Inc.	*		0.00%	500	9	1.72%
Envelopes Unlimited, Inc	*		0.00%	425	10	1.46%
Total	<u>6,506</u>		<u>26.38%</u>	<u>12,685</u>		<u>43.58%</u>
Total City Employment	<u>24,655</u>			<u>29,104</u>		

Source: Rockville Economic Development Incorporated

City of Rockville, Maryland

Operating Information

Full-Time Equivalent City Government Employees by Function/Program, Last Ten Fiscal Years

Function/Program	Full-Time Equivalent Employees as of June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Mayor and Council	6.0	6.5	6.0	7.0	7.0	7.0	6.5	5.5	5.5	4.5
City Manager	19.0	19.5	20.1	21.1	21.6	18.6	18.1	16.1	16.1	21.1
Personnel	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Finance	38.0	38.0	38.5	28.0	28.0	28.0	28.0	27.5	27.5	28.5
Information and technology	-	-	-	14.5	19.0	20.0	21.0	21.0	21.0	21.0
Community development	41.0	42.0	41.0	44.0	48.0	41.0	46.0	44.0	44.0	44.0
Community service	-	-	-	-	12.0	24.0	26.5	27.5	27.0	13.5
Public Safety	57.4	58.0	59.8	61.8	63.8	67.5	67.5	68.5	68.5	78.0
Public Works	60.0	55.0	55.5	61.0	62.0	62.0	63.1	63.0	66.5	55.5
Recreation and parks	135.2	137.5	138.2	137.5	143.8	143.5	145.8	146.4	139.5	139.6
Water	17.2	18.5	21.3	17.6	17.6	18.9	18.8	19.9	20.0	21.3
Sewer	11.2	11.6	11.2	11.4	11.4	11.6	11.6	11.6	13.0	13.2
Refuse collection	38.0	39.5	40.0	41.0	42.0	42.0	42.0	44.0	43.0	45.9
Parking	-	-	-	-	-	-	-	-	-	1.0
Stormwater management	8.0	8.0	8.0	10.0	11.5	11.5	11.5	11.5	11.5	11.5
Golf course	10.8	11.2	11.2	12.6	13.8	12.8	12.8	12.8	10.8	10.8
Total	449.80	453.30	458.80	475.50	509.50	516.40	527.20	527.30	521.90	517.40

City of Rockville, Maryland

Operating Information Capital Asset Statistics by Function/Program, Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Vehicles	48	54	60	64	64	64	48	54	60	64
Refuse collection										
Collection trucks	12	14	13	13	13	13	12	14	13	13
Other public works										
Streets (miles)	134.87	134.98	136.29	138	143	144	147.81	150.57	156.42	158.94
Street lights	4,640	4,674	4,697	4,723	4,729	4,868	5,752	5,770	5,797	5,812
Sidewalks (miles)	207.42	212.42	214.82	217.16	221.09	227.75	227.75	261.21	297.62	298.54
Recreation and Parks										
Acreage	796	815	872	955	955	935	935	944	1,020	1,050
Playgrounds	32	32	34	34	34	36	36	36	39	40
Picnic Areas	28	28	29	29	29	30	30	30	33	34
Community centers	4	4	4	4	4	4	4	5	5	5
Water										
Water mains (miles)	148.84	179.65	178.00	185	185	185	148.84	179.65	178.00	185
Fire hydrants	1,212	1,219	1,222	1,229	1,237	1,248	1,302	1,320	1,369	1,381
Storage capacity (millions of gallons)	8,0000	8,0000	8,0000	8,0000	8,0000	8,0000	8,0000	8,0000	8,0000	8,0000
Sewer										
Sanitary sewers (miles)	131.81	131.81	131.89	132.03	133.06	133.85	136.01	165.45	148.00	158.15
Storm sewers (miles)	50.49	52.56	54.04	55.52	58.40	59.90	62.14	103.14	97.60	102

City of Rockville, Maryland

Operating Indicators by Function/Program, Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Building permits issued	943	982	1,039	1,413	1,451	1,778	1,812	1,527	1,469	990
Estimated Cost of Permits	\$ 70,290,937	\$ 76,592,870	\$ 87,509,470	\$ 177,152,827	\$ 201,032,984	\$ 212,950,915	\$ 266,284,496	\$ 135,956,673	\$ 202,325,236	\$ 217,801,267
Police										
Physical arrests	607	549	599	510	492	807	982	1,132	1,173	1,144
Traffic violations	9,925	11,997	13,423	16,677	15,681	17,804	21,424	27,637	25,851	21,122
Refuse collection										
Refuse collected (tons per year)	14,657	15,746	15,492	15,920	20,971	20,861	21,720	20,760	21,600	38,520
Recyclables collected (tons per year)	-	-	-	-	8,854	9,126	9,000	9,720	17,640	18,100
Recreation and Parks										
Child care enrollment	235	272	262	281	281	281	235	272	262	281
Program enrollments	12,680	15,330	17,941	16,587	14,125	13,546	12,680	15,330	17,941	18,664
Water										
Number of Accounts	11,648	11,526	11,737	11,770	11,850	11,968	12,182	12,379	12,487	12,525
Average daily consumption (millions of gallons)	4.490	5.120	5.390	4.920	4.310	4.768	5.116	4.765	4.149	4.865
Sewer										
Avg. daily sewer treatment (thousands of gallons)	7,101	6,840	6,984	6,854	6,910	7,106	7,523	7,000	6,910	6,850